

NEW ISSUE – TAX CREDIT BONDS

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, the Bonds are “qualified school construction bonds” within the meaning of Section 54F of the Internal Revenue Code of 1986 (the “Code”). Owners of the Bonds, as of the applicable credit allowance date (defined in Section 54A of the Code) are entitled, subject to the limitations of Code Section 54A, to a federal income tax credit for such taxable year. The amount of the tax credit will be treated as interest for federal tax purposes and will be included in gross income for all Owners of the Bonds. Under current law, interest on the Bonds, if any, will be included in the gross income of the owners thereof for federal income tax purposes, however, such interest will be exempt from Massachusetts personal income taxes and the Bonds will be exempt from Massachusetts personal property taxes. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the receipt of the tax credit or the accrual or receipt of the deemed interest on the Bonds, including the treatment of the federal income tax credit on the Bonds for purposes of Massachusetts personal income taxation. See “FEDERAL TAX CREDITS” and “GENERAL TAX MATTERS” herein.

CITY OF BOSTON, MASSACHUSETTS
\$20,000,000
GENERAL OBLIGATION
QUALIFIED SCHOOL CONSTRUCTION BONDS, 2009 SERIES A

DATED: DATE OF DELIVERY**MATURITY DATE: SEPTEMBER 15, 2024**

The City of Boston, Massachusetts, \$20,000,000 General Obligation Qualified School Construction Bonds, 2009 Series A (the “Bonds”), will be issued by the City for the purpose of funding costs of various capital projects for City schools. The Bonds will be valid general obligations of the City for the payment of the principal of and interest, if any, on which all taxable property in the City is subject to the levy of ad valorem taxes without limit as to rate or amount as more fully described herein under “SECURITY FOR THE BONDS.”

The Bonds are being issued as “qualified school construction bonds” as defined in Section 54F of the Code. The Owner of a Bond will be allowed a credit against the Owner’s federal income tax liability on March 15, June 15, September 15 and December 15 (each a “Tax Credit Allowance Date”) of any tax year and on the final retirement of a Bond, commencing December 15, 2009, in an amount equal to twenty-five percent (25%) of the product of the Tax Credit Rate described herein and the principal amount of the Bond on the relevant Tax Credit Allowance Date (with the first and last credits prorated accordingly). The amount of the tax credit will be treated as interest for federal tax purposes and will be included in gross income for all Owners of the Bonds. The Bonds will not bear interest, unless converted to Interest Bearing Bonds as more fully described herein. Principal of the Bonds is payable on the maturity date set forth above.

Each Bond comprises a principal component (the “Principal Component”) and a tax credit component (a “Tax Credit Component”). The Tax Credit Component is evidenced separately by a certificate attached to the related Bond (each, a “Tax Credit Certificate”). Under the Code, the Secretary of the Treasury has been directed to promulgate regulations to permit separation of ownership of the Principal Component and ownership of the Tax Credit Component. As of the date hereof, no such regulations have been issued. If such regulations (or other appropriate guidance) are issued and subject to the satisfaction of certain conditions precedent, including delivery of an opinion of Bond Counsel to the effect that owners of the Tax Credit Certificates will be entitled to claim the tax credits for federal income tax purposes, the Tax Credit Certificate related to a Bond may be separated or “stripped” from the Principal Component following which, the Tax Credit Certificate and the remaining Principal Component would be separately registered by the Paying Agent. Following such separation, and subject to the satisfaction of certain conditions precedent, the Owner of the Principal Component and the requisite Tax Credit Certificates may recombine the Principal Component and the Tax Credit Certificates into unstripped Bonds. See “THE BONDS—Separation and Recombining the Tax Credit” herein.

The Bonds will be initially issued in book-entry form only, in denominations of \$40,000 principal amount or integral multiples thereof, and will be initially issued and registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). DTC will act as securities depository for the Bonds and, if separated, the Principal Strip Certificates and the Tax Credit Certificates. Purchasers will not receive physical delivery of the Bonds purchased by them or the Principal Strip Certificates and the Tax Credit Certificates separated therefrom. Payments of principal of and interest, if any, on the Bonds will be made by The Bank of New York Mellon Trust Company, N.A. as paying agent, transfer agent and registrar for the Bonds (the “Paying Agent”) to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds. See “THE BONDS—Book-Entry Transfer System” attached hereto.

The Bonds may in certain circumstances be converted to bonds that, in lieu of providing the Owner credits against federal income tax liability, bear interest at the Tax Credit Rate set forth above (“Interest Bearing Bonds”), as more fully described herein. See “THE BONDS—Conversion of Bonds into Interest Bearing Bonds” herein.

The Bonds will be subject to redemption as more fully described herein under “THE BONDS—Redemption Prior to Maturity.”

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision. The Bonds and, if applicable, any stripped Tax Credit Component thereof, may have limited market liquidity. See “CERTAIN INVESTOR CONSIDERATIONS REGARDING THE BONDS” herein.

The Bonds are offered for sale in accordance with the Request for Proposals to Provide Private Placement dated October 19, 2009, subject to the final approving opinion of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City, and to certain other conditions described in the Request for Proposals to Provide Private Placement. Public Financial Management, Inc., Boston, Massachusetts, serves as Financial Advisor to the City. It is anticipated that the Bonds will be available for delivery through DTC in New York, New York, on or about November 4, 2009.

October 28, 2009

* See “Credit Rating” herein.

**MATURITY DATE, PRINCIPAL AMOUNT, TAX CREDIT RATE,
AND CUSIP NUMBERS**

Tax Credit Bonds:

<u>Maturity Date</u>	<u>Principal Amount</u>	<u>Tax Credit Rate</u>	<u>CUSIP* (Base No. 100853)</u>
September 15, 2024	\$20,000,000.00	6.05%	GH7

As and after principal is stripped from the associated Tax Credits:

<u>Maturity Date</u>	<u>Principal Strip Amount</u>	<u>CUSIP* (Base No. 100853)</u>
September 15, 2024	\$20,000,000.00	GJ3

<u>Tax Credit Allowance Date</u>	<u>CUSIP number (if stripped from Related Bond) Base: 100853</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP number (if stripped from Related Bond) Base: 100853</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP number (if stripped from Related Bond) Base: 100853</u>	<u>Tax Credit Amount</u>	<u>Tax Credit Allowance Date</u>	<u>CUSIP number (if stripped from Related Bond) Base: 100853</u>	<u>Tax Credit Amount</u>
									12/15/2009	GKO	\$137,806
3/15/2010	GL8	\$302,500	6/15/2010	GM6	\$302,500	9/15/2010	GN4	\$302,500	12/15/2010	GP9	302,500
3/15/2011	GQ7	302,500	6/15/2011	GR5	302,500	9/15/2011	GS3	302,500	12/15/2011	GT1	302,500
3/15/2012	GU8	302,500	6/15/2012	GV6	302,500	9/15/2012	GW4	302,500	12/15/2012	GX2	302,500
3/15/2013	GY0	302,500	6/15/2013	GZ7	302,500	9/15/2013	HA1	302,500	12/15/2013	HB9	302,500
3/15/2014	HC7	302,500	6/15/2014	HD5	302,500	9/15/2014	HE3	302,500	12/15/2014	HF0	302,500
3/15/2015	HG8	302,500	6/15/2015	HH6	302,500	9/15/2015	HJ2	302,500	12/15/2015	HK9	302,500
3/15/2016	HL7	302,500	6/15/2016	HM5	302,500	9/15/2016	HN3	302,500	12/15/2016	HP8	302,500
3/15/2017	HQ6	302,500	6/16/2017	HR4	302,500	9/15/2017	HS2	302,500	12/15/2017	HT0	302,500
3/15/2018	HU7	302,500	6/16/2018	HV5	302,500	9/15/2018	HW3	302,500	12/15/2018	HX1	302,500
3/15/2019	HY9	302,500	6/16/2019	HZ6	302,500	9/15/2019	JA9	302,500	12/15/2019	JB7	302,500
3/15/2020	JC5	302,500	6/16/2020	JD3	302,500	9/15/2020	JE1	302,500	12/15/2020	JF8	302,500
3/15/2021	JG6	302,500	6/16/2021	JH4	302,500	9/15/2021	JJ0	302,500	12/15/2021	JK7	302,500
3/15/2022	JL5	302,500	6/16/2022	JM3	302,500	9/15/2022	JN1	302,500	12/15/2022	JP6	302,500
3/15/2023	JQ4	302,500	6/16/2023	JR2	302,500	9/15/2023	JS0	302,500	12/15/2023	JT8	302,500
3/15/2024	JU5	302,500	6/16/2024	JV3	302,500	9/15/2024	JW1	302,500			

* CUSIP is a registered trademark of American Bankers Association. CUSIP data herein is provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. CUSIP data herein is provided for convenience of reference only. The City, the Financial Advisor and the Placement Agent takes no responsibility for the accuracy of such data.

No dealer, broker, salesperson or other person has been authorized by the City of Boston to give any information or to make any representations in connection with the Bonds or the matters described herein, other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information contained herein has been furnished by the City and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation of the City as to information from other sources. This Official Statement is submitted in connection with the sale of the Bonds and may not be reproduced or used, in whole or in part, for any other purpose.

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OFFICIAL STATEMENT
of the
CITY OF BOSTON, MASSACHUSETTS
relating to
\$20,000,000
GENERAL OBLIGATION
QUALIFIED SCHOOL CONSTRUCTION BONDS
2009 SERIES A

This Official Statement (which includes the cover page and Appendices hereto) provides information concerning the City of Boston, Massachusetts (the “City”), and the \$20,000,000 General Obligation Qualified School Construction Bonds, 2009 Series A (the “Bonds”), to be issued by the City as described herein. Certain credit factors concerning the Bonds are described throughout this Official Statement, which should be read in its entirety. This Official Statement speaks only as of its date and the information contained herein is subject to change after this date.

THE CITY

The City of Boston, incorporated as a town in 1630 and as a city in 1822, is the largest city in Massachusetts and the capital of The Commonwealth of Massachusetts (the “Commonwealth”). The City and its component governmental units are responsible for the provision of a wide range of government services, including education, public safety, public health, urban planning and development and the maintenance of the City’s infrastructure, and for funding certain employee benefits, state authority assessments and debt service requirements. Its primary sources of revenue are property taxes, state aid and certain excises. Management of the City’s finances includes preparation of annual operating and capital budgets, the exercise of expenditure controls and cash management. For a full discussion concerning the City and its finances, see “Appendix A—City of Boston, Massachusetts, Information Statement Dated March 1, 2009” and “Supplement Dated October 1, 2009 to Information Statement Dated March 1, 2009” (collectively, the “Information Statement”).

As the economic hub of New England, Boston is a center for professional, financial, higher educational and medical services, and the focus of tourist and convention travel in New England. For a description of certain demographic and economic information about the City, see “Appendix A—Exhibit III—City of Boston—Selected Demographic and Economic Information.”

SECURITY FOR THE BONDS

The Bonds will be valid general obligations of the City, for the payment of the principal of and interest, if any, on which the full faith and credit of the City will be pledged. To the extent not paid from other legally available revenues of the City, the Bonds are payable from ad valorem taxes which may be levied upon all taxable property in the City without limit as to rate or amount.

Chapter 643 of the Acts of 1983 of the Commonwealth, as amended (the “Bond Procedure Act of 1983”), requires that the debt and interest charges on all general obligation indebtedness of the City (including the Bonds), if not otherwise provided for, be included in the City’s annual tax levy. The Bond Procedure Act of 1983 also mandates assessment of taxes in excess of the levy limits imposed by the statewide property tax limit (“Proposition 2½”) to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See “City Revenues—Property Taxes—Proposition 2½” in the Information Statement. Holders of City obligations do not have a statutory priority with respect to or a security interest in the portion of the tax levy attributable to such obligations. See “City Indebtedness—Classification of City Debt” in the Information Statement.

In the opinion of Bond Counsel, the City is subject to suit on the Bonds, and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the Bonds from available funds or, in the absence of available funds, to order the inclusion of the required amount in the next annual tax levy. In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors, including the current operating needs of the City and the availability and adequacy of other remedies. The Massachusetts

Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of property of any inhabitant. There has been no judicial determination, however, as to whether the remedy is constitutional under current due process and equal protection standards.

Payment of the principal and interest, if any, on the Bonds is not secured by or limited to a pledge of any particular revenue source of the City. Chapter 190 of the Acts of 1982 of the Commonwealth (the “1982 Funding Loan Act”) and the Bond Procedure Act of 1983 authorize the City to pledge to the payment of any of its general obligation notes or bonds all or any part of the revenues of the City derived from any tax, fee, distribution or reimbursement payable to the City (except distributions and reimbursements required by law to be specifically used for statutorily defined purposes), including state aid distributions and the proceeds of the City’s annual property tax levy. No obligations are currently outstanding which are secured by such a pledge. The Bond Procedure Act of 1983 also authorizes the City to issue special obligation bonds payable solely from the revenues of a revenue-producing facility, and Chapter 152 of the Acts of 1997, as amended (the “Convention Center Act”), authorizes the City to pledge certain excise receipts and other revenues of the City to the payment of bonds of the City issued under the authority of the Convention Center Act. The only special obligation indebtedness of the City outstanding as of October 1, 2009 was \$97.1 million of the City’s Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A, and \$80.6 million of the City’s Special Obligation Refunding Bonds, Boston City Hospital Issue. See “City Indebtedness—Special Obligation Debt” in the Information Statement. To the extent required for the payment of any such secured indebtedness, the revenues pledged to their payment would not be available to pay the Bonds.

Except to the extent specifically pledged to the payment of certain indebtedness, state aid distributions to the City are generally available for the payment of bonds or notes of the City, but, under certain circumstances, they may be unavailable to the extent such distributions are applied to the payment of “qualified bonds” issued by the City (none of which bonds have been issued), or to the extent that such distributions may be applied under state law to the satisfaction of unpaid assessments due the Commonwealth from the City for debt issued by the Massachusetts Bay Transportation Authority, or for obligations of the City or of the Boston Water and Sewer Commission issued to the Massachusetts Water Pollution Abatement Trust. See “City Indebtedness—Classification of City Debt” in the Information Statement.

State statutes also provide that certain parking meter receipts may be used only for parking and related purposes and, accordingly, monies derived from this source may be unavailable to pay general obligation bonds and notes issued for other purposes. In addition, subject to certain limits, the City may annually authorize the establishment of one or more revolving funds in connection with the use of certain revenues for programs that produce those revenues. If it accepts certain statutory provisions, the City may also establish enterprise funds for certain purposes, including for a health care, solid waste, recreational or transportation facility, and for police or fire services. Under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. The City has not established any such revolving funds or enterprise funds.

Section 19A of Chapter 44 of the General Laws provides, in part, that if the City is or is likely to be unable to pay principal of or interest on any of its bonds or notes when due, it shall notify the state Commissioner of Revenue. The Commissioner shall certify such inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount by the later of three days after the certification or one business day prior to the due date. This payment is limited, however, to the estimated amounts distributable by the Commonwealth to the City during the remainder of the fiscal year. If, for any reason, any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for such fiscal year. The sums so paid shall be charged with interest and administrative costs against the distributions to the City. The foregoing provisions are not a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions and the law requiring the Commonwealth to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the state’s annual appropriation act is often delayed beyond the beginning of the fiscal year, and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

The rights of the holders of the Bonds and the enforceability of payment of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise

of judicial discretion in appropriate cases. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws.

THE BONDS

Authorization And Purpose

The Bonds will be issued pursuant to Section 13 of Chapter 643 of the Acts of 1983 of the Commonwealth, as amended, and various loan orders of the City Council approved by the Mayor, for the purpose of paying costs of capital projects for City schools.

Designation of Bonds as Qualified School Construction Bonds

The Bonds will be designated by the City as “qualified school construction bonds” under the provisions of the American Recovery and Reinvestment Tax Act of 2009 (the “Recovery Act”) and as defined in Section 54F of the Internal Revenue Code of 1986, as amended (the “Code”). The total amount of “qualified school construction bonds” issued nationally in calendar year 2009 is limited by the Code to \$11 billion, and the United States Department of the Treasury (the “Treasury Department”) has allocated a portion of such limit to the City in the amount of \$37,567,000. The principal amount of the Bonds will not be in excess of the City’s allocation.

The Tax Credit Program

Under the Code, the Owners of qualified school construction bonds are allowed a credit (the “Tax Credit”) against their federal income tax liability (herein referred to as the “Tax Credit Program”). Each Bond includes a Principal Component and a Tax Credit Component. Under the Code and subject to certain conditions stated below, the ownership of the Principal Component and the Tax Credit Component of a Bond may be separated or “stripped” from such Bond. The Owner of a Tax Credit (as evidenced by either an unstripped Bond or a stripped Tax Credit Certificate) will be allowed, subject to the limitations of Section 54A of the Code, a credit against the Owner’s federal income tax liability, except as otherwise provided herein, on March 15, June 15, September 15 or December 15 of each year through the maturity date of such Bonds, or such earlier date on which such Bond is redeemed or converted to an Interest Bearing Bond (as defined below) (each, a “Tax Credit Allowance Date”).

A taxpayer who owns a Bond or, if stripped, a Tax Credit Certificate, will recognize, subject to the limitations set forth in Section 54A of the Code, the amount of the Tax Credit as a credit against its federal income tax liability on a given Tax Credit Allowance Date. The amount of each Tax Credit is calculated under the Tax Credit Program and is represented by either an unstripped Bond or a stripped Tax Credit Certificate. The amount of the Tax Credit is the amount equal to twenty-five percent (25%) of the product of (i) the published rate (the “Tax Credit Rate”) for the date on which the Bond was sold by the City and (ii) the outstanding principal amount of the Bond on the relevant Tax Credit Allowance Date. The Tax Credit allowed for the first Tax Credit Allowance Date of December 15, 2009, is the ratable portion of the Tax Credit otherwise allowed on such date measured from the date of issuance of the Bonds. If a Bond or a Principal Strip is redeemed on a date other than March 15, June 15, September 15 or December 15, the redemption date will be deemed a Tax Credit Allowance Date and the amount of the associated Tax Credit will be a ratable portion of the tax credit otherwise allowed measured from the earlier Tax Credit Allowance Date.

The Bonds, the Principal Strip Certificates and the Tax Credit Certificates may be transferred as provided below. Each stripped Tax Credit Certificate will evidence only the Tax Credits associated with one Tax Credit Allowance Date for the related Tax Credit Bond and, when separated, multiple Tax Credit Certificates will be authenticated and delivered that in the aggregate contain all the Tax Credits related to a Bond for each Tax Credit Allowance Date. See “Separation and Recombining of Principal Component and Tax Credit Component” herein.

The City expresses no opinion as to the utility of Tax Credits for any particular Owner or subsequent purchaser of a Bond or a Tax Credit Certificate, and prospective purchasers of Bonds or Tax Credit Certificates should consult with their own tax advisors concerning the purchase of Bonds or Tax Credit Certificates. See “FEDERAL TAX CREDITS” and “GENERAL TAX MATTERS” herein. As of the date of

this Official Statement, no regulations have been promulgated with respect to the allowance of a credit to the owners of qualified school construction bonds or the separation of the principal component and tax credit components thereof. Prospective purchasers of the Bonds should be aware that regulations or other official guidance, if and when issued, may impose additional requirements, that may be applicable, prospectively or retroactively, to a holder's claim for allowance of the Tax Credits.

Payment of Principal

Principal of the Bonds or Principal Strip Certificates, if applicable, is payable on the maturity date thereof. The principal of the Bonds or Principal Strip Certificates, if applicable, will be payable, when due or upon redemption prior thereto, in lawful money of the United States of America to the person whose name appears on the registration books of the Paying Agent as the registered owner thereof upon the surrender thereof at the principal corporate trust office of the Paying Agent.

Separation and Recombining of Principal Component and Tax Credit Component

Separation of Principal Component and Tax Credit Component. The Bonds include a Principal Component and a Tax Credit Component. At the option of an Owner of a Bond, and at the expense of the Owner, the ownership of the Principal Component and the Tax Credit Component may be separated or "stripped" from such Bond upon satisfaction of certain conditions precedent set forth in the Paying Agent Agreement between the City and the Paying Agent dated November 4, 2009 (the "Paying Agent Agreement"). The conditions precedent to such separation include: (i) issuance by the Secretary of the Treasury of regulations or other appropriate guidance (collectively, the "Guidance") with respect to such separation and (ii) delivery of an opinion of Bond Counsel to the effect that an Owner of a Tax Credit Certificate who does not own the Principal Component thereof will be entitled to the Tax Credits associated with such Tax Credit Certificate. The Paying Agent Agreement provides that, at any time, by written request to the Paying Agent, the Owner of a Bond may, upon presentation of such Bond, direct the Paying Agent to authenticate and deliver Principal Strip Certificates in a face amount equal to the principal amount of the Bonds to be so separated, and Tax Credit Certificates representing the entitlement to the allocable Tax Credits with respect to such Bonds. Upon the receipt of a request and the presentation of the Bond to be stripped, the Paying Agent is required under the Paying Agent Agreement to: (i) authenticate and deliver to or upon the order of the Owner so requesting, Principal Strip Certificates in a face amount equal to the principal amount of the Bond so presented; (ii) authenticate and deliver to or upon the order of the Owner so requesting, Tax Credit Certificates for each remaining Tax Credit Allowance Date in a face amount equal to twenty-five percent (25%) of the product of (A) the principal amount of the Bond so presented and (B) the Tax Credit Rate; and (iii) contemporaneously with the delivery thereof, reduce, by the amount so converted, the number of Bonds that have not been stripped.

Recombining of Principal Component and Tax Credit Component. The Owner of a Principal Strip Certificate and the requisite number of Tax Credit Certificates, at the expense of the Owner, may recombine such Principal Strip Certificate and Tax Credit Certificates into unstripped Bonds. The Paying Agent Agreement provides that, at any time, by written request to the Paying Agent, the Owner of a Principal Strip Certificate and sufficient Tax Credit Certificates having Tax Credit Allowance Dates corresponding to each and every Tax Credit Allowance Date that would remain with respect to a Bond, and having a face amount with respect to each such Tax Credit Allowance Date equal to the Tax Credits that would be related to a Bond with a principal amount equal to the Principal Strip Certificate to be recombined, may, upon presentation of such Principal Strip Certificate and Tax Credit Certificates, direct the Paying Agent to authenticate and deliver a Bond in a principal amount equal to the face amount of the Principal Strip Certificate to be so converted. Upon the receipt of a request and the presentation of the Principal Strip Certificate and Tax Credit Certificates to be recombined, the Paying Agent is required under the Paying Agent Agreement to authenticate and deliver an unstripped Bond in a principal amount equal to the face amount of the Principal Strip Certificates to be so converted and reduce, by the amount so converted, the number of separate Principal Strip Certificates and Tax Credit Certificates.

Modifications of the Paying Agent Agreement. As noted above, as of the date of this Official Statement, no Guidance has been issued by the Secretary of the Treasury with respect to the allowance of a credit to the owners of qualified school construction bonds or the separation of the Principal Component and Tax Credit Components thereof. Such Guidance may impose additional requirements pertaining to the stripping of the Tax Credit Component from the Principal Component, including, among other things, requirements relating to the reporting and

tracking of the ownership interests in the Tax Credit Components. Modifications may be required to be made to the Paying Agent Agreement, or other actions, which are not known as of the date hereof, may be required to be taken with respect to a holder's claim for allowance of a Tax Credit.

The Paying Agent Agreement may be amended, by written agreement of the parties, and any provision of the Paying Agent Agreement may be waived, each without the consent of the Owners of the Bonds, if (i)(a) such amendment or waiver is required to conform the terms of the Bonds to the Guidance; (b) an amendment to Section 54A or 54F of the Code is adopted, or a new or modified official interpretation of Section 54A or 54F of the Code is issued, after the effective date of the Paying Agent Agreement which is applicable to the Paying Agent Agreement and the transactions contemplated thereby; (c) legislation has been enacted by the United States or the State, or a decision shall have been rendered by a court of the United States or the Tax Court of the United States, or a ruling shall have been made or a regulation, proposed regulation or a temporary regulation or an official statement shall have been published in the Federal Register or in an Internal Revenue Bulletin or any other release or announcement shall have been made by or on behalf of the Treasury Department of the United States, U.S. Securities and Exchange Commission or the IRS with respect to the stripping of Principal Component or Tax Credit Component, or (d) rules, procedures or guidance have been adopted by DTC or any successor or replacement securities depository with respect to such stripping and (ii) the City has delivered to the Paying Agent an opinion of counsel addressed to the City and the Paying Agent to the effect that (a) performance by the City and Paying Agent under the Paying Agent Agreement as so amended or giving effect to such waiver, as the case may be, will not result in a violation of Sections 54A or 54F of the Code and (b) an Owner of a Tax Credit Certificate who does not own the Principal Component will be entitled to the Tax Credits associated with such Tax Credit Certificate. The City will give to the Owners of the Bonds and Principal Strip Certificate and Tax Credit Certificates, if any, prompt notice of any such amendment to or waiver of any provision of the Paying Agent Agreement.

Registration

The Bonds will be initially issued in book-entry form only, in denominations of \$40,000 principal amount or integral multiples thereof (hereinafter "Authorized Denominations"), and will be initially issued and registered in the name of Cede & Co., as nominee for DTC. DTC will act as securities depository for the Bonds and, if separated, the Principal Strip Certificates and the Tax Credit Certificates, and registered ownership of the Bonds, the Principal Strip Certificates and Tax Credit Certificates, as applicable, may not thereafter be transferred except as provided in the Paying Agent Agreement.

If separated, Principal Strip Certificates will be executed and delivered in Authorized Denominations and Tax Credit Certificates will be executed and delivered in denominations of an amount equal to twenty-five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate, or any integral multiple thereof, except that the Authorized Denomination for Tax Credit Certificates with respect to the first Tax Credit Allowance Date will be pro rated by the number of days from the date of initial issuance and delivery of the Bonds to the first Tax Credit Allowance Date.

Purchasers will not receive physical delivery of the Bonds purchased by them or the Principal Strip Certificates and the Tax Credit Certificates separated therefrom. Payments of principal of the Bonds will be made by the Paying Agent to DTC, for subsequent disbursement to DTC Participants, who will remit such payments to the beneficial owners of the Bonds.

DTC assumes no responsibility for the processing of Tax Credits, whether or not stripped, by the Beneficial Owners thereof, nor will it play any role in the process by which a Beneficial Owner might claim all or a ratable share of a Tax Credit against its federal income tax liability arising while the Bonds are outstanding. Beneficial Owners will have the sole responsibility for claiming Tax Credits and resolving any impact that ownership of the Tax Credits may have upon their federal income tax or state income tax liability as a consequence of ownership thereof. See "BOOK-ENTRY TRANSFER SYSTEM" herein.

Redemption of the Bonds

No Optional or Mandatory Sinking Fund Redemption. The Bonds are not subject to optional or mandatory sinking fund redemption prior to their stated maturity.

Extraordinary Mandatory Redemption. The Bonds are subject to extraordinary mandatory redemption, in whole or in part, on December 15, 2012 or, in the event of an extension negotiated with the Internal Revenue Service (the “IRS”), on a Tax Credit Allowance Date that occurs on or before December 15, 2014, in Authorized Denominations, at a redemption price equal to the principal amount of the Bonds to be redeemed, in an amount computed by reference to the unexpended proceeds of the Bonds.

In the event that the ownership of the Principal Component and the Tax Credit Component have been separated from the ownership of the Bonds and registered separately, the Principal Strip Certificates and the Tax Credit Certificates will be called for redemption in the same manner as the Bonds and the redemption price therefor will be allocated to the Principal Strip Certificates and the Tax Credit Certificates in the proportions and values set forth in APPENDIX B - “TABLE OF REDEMPTION VALUES” attached hereto.

Selection of Bonds for Redemption. Redemption of the Bonds will be effected in \$40,000 increments, so that any Bond redeemed in part will have a remaining notional amount of \$40,000 or an integral multiple thereof. The partial redemption of the Bonds will be effected by redeeming *pro rata* from each person who is the Owner of a Bond to be redeemed on a redemption date, an amount of such Bonds determined by multiplying the principal amount of the Bonds to be redeemed on said redemption date by a fraction, the numerator of which is the principal amount of the Bonds owned by such Owner and the denominator of which is the principal amount of all the Bonds outstanding immediately prior to the date of redemption, and then rounding the product down to the next lower integral multiple of \$40,000. The Paying Agent will apply, to the extent possible, any remaining amount of proceeds to redeem such Bonds in Authorized Denominations and DTC will select the units to be redeemed from all such Owners, which selection will be conclusive. The Principal Strip Certificates and the Tax Credit Certificates related to the Bonds called for redemption will also be called for redemption.

In the event of a mandatory redemption of Bonds from unexpended bond proceeds and in the event that Bonds have been exchanged for Principal Strip Certificates and Tax Credit Certificates (in whole or in part) and registered separately pursuant to the Paying Agent Agreement, the amount of unexpended bond proceeds shall be allocated, as nearly as reasonably possible, *pro rata* between (i) Bonds and (ii) an amount of (a) Principal Strip Certificates and (b) Tax Credit Certificates that would relate to such principal amount of Principal Strip Certificates, based upon the relative principal amounts of the outstanding Bonds and the outstanding Principal Strip Certificates. Any Principal Strip Certificates and Tax Credit Certificates to be so redeemed shall also be called for redemption on the same terms and conditions and in the same manner as the Bonds, and the price for redemption to be paid by the City and used to redeem Principal Strip Certificates and Tax Credit Certificates so redeemed shall be allocated to the Bonds, Principal Strip Certificates and the Tax Credit Certificates in the proportions and values set forth in the APPENDIX B—“TABLE OF REDEMPTION VALUES” attached hereto.

Notice of Redemption. Notice of redemption of any Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, will be given by the Paying Agent. Notice of any redemption of Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, will be mailed postage prepaid, not less than 30 nor more than 60 days prior to the redemption date by first class mail to the respective Owners thereof at the addresses appearing on the registration books.

Each notice of redemption will contain the following information: (i) the date of such notice; (ii) the name of the Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, and the date of issue of the Bonds; (iii) the redemption date; (iv) the redemption price; (v) the dates of maturity of the Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, to be redeemed; (vi) if less than all of the Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, are to be redeemed, the distinctive numbers of the Bonds, Principal Strip Certificates and Tax Credit Certificates to be redeemed; (vii) the CUSIP number of each Bond to be redeemed or, if the Bonds have been stripped in accordance with the Paying Agent Agreement, the CUSIP number of each Principal Strip Certificate and Tax Credit Certificate to be redeemed; (viii) in the case of Bonds redeemed in part only, the respective portions of the principal amount of the Bonds to be redeemed; and (ix) a statement that such Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, must be surrendered by the Owners at the principal corporate trust office of the Paying Agent, or at such other place or places designated by the Paying Agent. The actual receipt by the Owner of any Bond, or, if stripped, related Principal Strip Certificate and Tax Credit Certificate, or by any securities depository or information service of notice of redemption will not be a condition precedent to redemption, and failure to receive such notice, or any defect in

the notice given, will not affect the validity of the proceedings for the redemption of such series of Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates.

Effect of Redemption. When notice of redemption has been given as described above, and when the redemption price of the Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, called for redemption is set aside for such purpose, the Bonds, or, if stripped, Principal Strip Certificates and Tax Credit Certificates, designated for redemption will become due and payable on the specified redemption date.

If any of the Bonds are called for extraordinary redemption, the associated Tax Credits with respect to subsequent Tax Credit Allowance Dates will expire on the date the associated Bonds are so redeemed.

Any notice of redemption of the Bonds delivered in accordance the Paying Agent Agreement may be conditional and if any condition stated in the notice of redemption will not have been satisfied on or prior to the redemption date, said notice: (i) will be of no force and effect, (ii) the City will not be required to redeem such Bonds; (iii) the redemption will not be made and (iv) the Paying Agent will within a reasonable time thereafter give notice to the persons and in the manner in which the conditional notice of redemption was given, that such condition or conditions were not met and that the redemption was cancelled.

The City may rescind any redemption of the Bonds for any reason on any date prior to or on the date fixed for redemption by causing written notice of the rescission to be given to the Owners of the Bonds or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, so called for redemption. Notice of rescission of redemption will be given in the same manner in which notice of redemption was originally given. The actual receipt by the Owner of any Bond or, if stripped, related Principal Strip Certificates and Tax Credit Certificates, of notice of such rescission will not be a condition precedent to rescission, and failure to receive such notice or any defect in such notice will not affect the validity of the rescission.

Conversion of Bonds into Interest Bearing Bonds

The Bonds may, in the circumstances described below and at the expense of the City, be converted, in whole or in part, to Bonds ("Interest Bearing Bonds") that, in lieu of providing the Owner thereof credits against federal income tax liability, bear interest at the Tax Credit Rate.

Definitions. In connection with the conversion of the Bonds into Interest Bearing Bonds, certain capitalized terms used herein and in the Paying Agent Agreement have the following meanings:

The term "Date of Determination of Loss of Qualified School Construction Bond Status" means the date on which the IRS or a court of competent jurisdiction has issued to the City a Determination of Loss of Qualified School Construction Bond Status.

The term "Determination of Loss of Qualified School Construction Bond Status" means (i) a final determination by the IRS (after the City has exhausted or waived all administrative appeal remedies) determining that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status and the amount of Bonds that are subject to the Accountable Event of Loss of Qualified School Construction Bond Status, or (ii) a non-appealable holding by a court of competent jurisdiction holding that an Accountable Event of Loss of Qualified School Construction Bond Status has occurred and specifying the Date of Loss of Qualified School Construction Bond Status.

The term "Accountable Event of Loss of Qualified School Construction Bond Status" means (i) any act or any failure to act on the part of the City constituting a breach of a covenant or agreement of the City contained in the Paying Agent Agreement or the Tax Certificate of the City relating to the Bonds (the "Tax Certificate") which causes the Bonds to lose their status, or fail to qualify, as "qualified school construction bonds" within the meaning of Section 54F of the Code, or (ii) the making by the City of any representation contained in the Paying Agent Agreement, the Tax Certificate or the Bonds, as applicable, which was untrue when made and the untruth of which representation at such time causes the Bonds to lose their status, or fail to qualify, as "qualified school construction bonds" within the meaning of Section 54F of the Code.

The term “Date of Loss of Qualified School Construction Bond Status” means the date specified in a Determination of Loss of Qualified School Construction Bond Status as the date from and after which the Bonds lost their status, or failed to qualify, as “qualified school construction bonds” as defined in Section 54F of the Code as a result of an Accountable Event of Loss of Qualified School Construction Bond Status, which date could be as early as the date of initial issuance and delivery of the Bonds.

The term “Tax Credit Conversion Date” means the December 15 following the next succeeding August 1 after the Date of Determination of Loss of Qualified School Construction Bond Status.

General. On the Tax Credit Conversion Date, the Bonds will be converted, in whole or in part, into Interest Bearing Bonds with interest at the Tax Credit Rate (“Cash Interest Payments”), payable on each Tax Credit Allowance Date commencing on the Tax Credit Allowance Date immediately after the date the Bonds are converted into Interest Bearing Bonds. Upon any such conversion, each Interest Bearing Bond so converted would bear interest from the Tax Credit Allowance Date next preceding the date of authentication thereof, unless it is authenticated during the period after the Record Date immediately preceding any Tax Credit Allowance Date to and including such Tax Credit Allowance Date, in which event it will bear interest from such Tax Credit Allowance Date, or unless it is authenticated on or before the Record Date preceding the first Tax Credit Allowance Date, in which event it will bear interest from the Tax Credit Conversion Date. Such interest would be computed on the basis of a 360-day year of twelve 30-day months.

The Interest Bearing Bonds, if any, will include a principal component relating to the principal amount of the bond (the “Principal Component”) and a component relating to the Cash Interest Payments equivalent to the Tax Credit Rate (the “Cash Interest Payment Component”) and the ownership of the Principal Component and Cash Interest Payment Component may be separated or stripped from such Interest Bearing Bond. Upon any such separation, the Principal will be evidenced by a Principal Strip Certificate and each Cash Interest Payment Component will be evidenced by a Cash Interest Certificate.

If Bonds are converted, in whole or in part, into Interest Bearing Bonds, the Paying Agent Agreement provides that (i) such Bonds, any Principal Strip Certificates relating thereto and any related Tax Credit Certificates representing Tax Credits for Tax Credit Allowance Dates occurring after the Tax Credit Conversion Date shall, on the Tax Credit Conversion Date or as soon thereafter as practical, be exchanged by the Owner thereof for Interest Bearing Bonds, Principal Strip Certificates relating to the Interest Bearing Bonds and Cash Interest Certificates without the need for any further action or proceeding by the City and (ii) such Interest Bearing Bonds, related Principal Strip Certificates and Cash Interest Certificates shall, from and after the Tax Credit Conversion Date, be Interest Bearing Bonds, related Principal Strip Certificates and Cash Interest Certificates, respectively, for all purposes of the Paying Agent Agreement, and (iii) if the Bonds that have been converted to Interest Bearing Bonds have not already ceased to be “qualified school construction bonds” under Section 54F of the Code as a result of a Determination of Loss of Qualified School Construction Bond Status, such Bonds, from and after the Tax Credit Conversion Date, shall cease to be “qualified school construction bonds” under Section 54F of the Code. The Paying Agent Agreement provides that, if Bonds are converted, in whole or in part, into Interest Bearing Bonds, any Bonds, Principal Strip Certificates or Tax Credit Certificates related thereto not exchanged for Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates by the Owners thereof shall be deemed to be so exchanged.

Upon a conversion, in whole or in part, of Bonds into Interest Bearing Bonds in accordance with the Paying Agent Agreement, the Paying Agent will send a written notice to the Owners of such Bonds, Principal Strip Certificates and Tax Credit Certificates, stating that (i) as of the Tax Credit Conversion Date, the related Bonds have been or shall be converted into Interest Bearing Bonds, and (ii) such Owners are required to deliver, on the Tax Credit Conversion Date or as soon thereafter as practical, their Bonds, any Principal Strip Certificates relating thereto and Tax Credit Certificates (for Tax Credit Allowance Dates occurring after the Tax Credit Conversion Date) to the Paying Agent in exchange for an Interest Bearing Bond or Bonds, Principal Strip Certificates relating to the Interest Bearing Bonds and Cash Interest Certificates in Authorized Denominations in the same respective face amount as such Bonds Certificates, any Principal Strip Certificates relating to such Bonds and Tax Credit Certificates so delivered by such Owners. Upon the conversion, in whole or in part, of Bonds into Interest Bearing Bonds, Principal Strip Certificates relating to Bonds into Principal Strip Certificates relating to Interest Bearing Bonds and Tax Credit Certificates, if any, into Cash Interest Certificates, the Paying Agent Agreement provides that the City shall execute, and the Paying Agent shall authenticate and deliver, to the Owners of such Bonds, Principal

Strip Certificates relating to the Bonds and Tax Credit Certificates, if any, entitled thereto, fully registered Interest Bearing Bonds, Principal Strip Certificates relating to such Interest Bearing Bonds and Cash Interest Certificates.

In addition, in the event that any Tax Credits with respect to Tax Credit Allowance Dates occurring on or prior to the Tax Credit Conversion Date are determined to be ineligible as Tax Credits as a result of the Determination of Loss of Qualified School Construction Bond Status, the City will pay to the Owners of the Bonds or Tax Credit Certificates, as appropriate, an amount equal to the amount of such disallowed Tax Credits, plus interest thereon from the applicable Tax Credit Allowance Date to the date of payment, compounded quarterly at the rates equal to the large corporate underpayment rates determined from time to time by the IRS during such interest compounding period to be paid on or before the January 15th following the next succeeding August 1 after the Date of Determination of Loss of Qualified School Construction Bond Status. Notwithstanding the foregoing, no payment shall be made with respect to any Tax Credit in any tax year as to which assertion of a deficiency by the IRS would be barred under the Code by a statute of limitations.

Redemption. The Interest Bearing Bonds will not be subject to optional, mandatory sinking fund or extraordinary redemption.

Separating and Recombining the Principal Component and the Cash Interest Payment of Interest Bearing Bonds

General. The City has authorized the issuance of the Interest Bearing Bonds in a form that permits the separation of the ownership of the Principal Component and ownership of the Cash Interest Payment of each Interest Bearing Bond. At the option of an Owner of an Interest Bearing Bond and at the expense of the Owner, the ownership of the Principal Component and the Cash Interest Payment Component may be separated or “stripped” from such Interest Bearing Bond. In such event, the following conditions and procedures will apply.

Separation of Principal Component and Cash Interest Payment Component. As described above, the ownership of the Principal Component and the Cash Interest Payment Component may be separated or “stripped” from such Interest Bearing Bond. By written request to the Paying Agent, the Owner of an Interest Bearing Bond may, at such Owner’s expense, upon presentation of such Interest Bearing Bond, direct the Paying Agent to authenticate and deliver a Principal Strip Certificate in a principal amount equal to the principal amount of the Interest Bearing Bonds to be so separated and Cash Interest Certificates representing the entitlement to the Cash Interest Payment Component with respect to such Interest Bearing Bonds to be converted.

Upon the receipt of a request and the presentation of an Interest Bearing Bond to be stripped pursuant to the Paying Agent Agreement, the Paying Agent will: (i) authenticate and deliver to or upon the order of the Owner so requesting, a Principal Strip Certificate in a principal amount equal to the principal amount of the related Interest Bearing Bond so presented; (ii) authenticate and deliver to or upon the order of the Owner so requesting, Cash Interest Certificates for each remaining Cash Interest Payment Date in accordance with the Paying Agent Agreement, in an amount equal to twenty five percent (25%) of the product of (A) the principal amount of the related Interest Bearing Bond so presented and (b) the Tax Credit Rate; and (iii) contemporaneously with the delivery thereof, reduce, by the amount so converted the amount of Interest Bearing Bonds that have not been stripped.

Recombining of Principal Component and Cash Interest Payment Component. The Owner of a Principal Strip Certificate and the requisite number of Cash Interest Certificates may, at the expense of such Owner, recombine such Principal Strip Certificate and Cash Interest Certificates into unstripped Interest Bearing Bonds. By written request to the Paying Agent, the Owner of a Principal Strip Certificate and sufficient Cash Interest Certificates having payment dates corresponding to each and every Tax Credit Allowance Date that would remain with respect to an Interest Bearing Bond, and having a face amount with respect to each such Cash Interest Payment Date equal to the amount of the Cash Interest Payment Component that would be paid on an Interest Bearing Bond with a principal amount equal to the Principal Strip Certificates to be recombined, may, upon presentation of such Principal Strip Certificates and Cash Interest Certificates, direct the Paying Agent to authenticate and deliver an Interest Bearing Bond in a principal amount equal to the principal amount of the Principal Strip Certificate to be so converted. Upon the receipt of a request and the presentation of the Principal Strip Certificate and Cash Interest Certificates to be recombined, the Paying Agent is required to authenticate and deliver an unstripped Interest

Bearing Bond in a principal amount equal to the face amount of the Principal Strip Certificates to be so converted, and reduce, by the amount so converted, the separate Principal Strip Certificates and Cash Interest Certificates.

Form and Registration. The Interest Bearing Bonds, if any, will be delivered in book-entry form only and will be registered in the name of Cede & Co., as nominee for DTC. The Interest Bearing Bonds, if any, will be delivered in denominations of \$5,000 or any integral multiple thereof; provided, however, that, if separated, Principal Strip Certificates will be executed and delivered in denominations of \$40,000 principal amount or integral multiples thereof and Cash Interest Certificates will be executed and delivered in denominations of an amount equal to twenty five percent (25%) of the product of (A) \$40,000 and (B) the Tax Credit Rate or any integral multiple thereof.

Book-Entry Transfer System

The information contained herein concerning the Depository Trust Company, New York, New York, and its book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Bonds and, if such Bonds are stripped, the Principal Strip Certificates and the Tax Credit Certificates. DTC will act as securities depository for the Bonds if such Bonds are converted to Interest Bearing Bonds and, if such Interest Bearing Bonds are stripped, the Principal Strip Certificates and the Cash Interest Certificates. The Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, will be executed and delivered as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered bond certificate will be issued for each maturity of the Bonds in the principal amount of such maturity, and will be deposited with DTC. In the event the Bonds are converted into Interest Bearing Bonds, one fully-registered bond certificate will be issued for each maturity of the Interest Bearing Bonds, in the principal amount of such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA. The DTC Rules applicable to its Participants are on file with the U.S. Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites is not incorporated herein.

Purchases of the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, must be made by or through Direct Participants, which will receive a credit for the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, on DTC’s records. The ownership interest of each actual purchaser of each Bond, Principal Strip Certificate and Tax Credit Certificate, if any, and the Interest Bearing Bond, Principal Strip Certificate and Cash Interest Certificate, if any, as applicable, (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are,

however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, except in the event that use of the book-entry system for the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, is discontinued.

To facilitate subsequent transfers, all Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, such as redemptions, tenders, defaults, and proposed amendments to the Paying Agent Agreement. For example, Beneficial Owners of the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable may wish to ascertain that the nominee holding the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable, called for redemption or of any other action premised on such notice. Redemption of portions of the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable by the City will reduce the outstanding principal amount of Bonds held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Bonds, Principal Strip Certificates, and Tax Credit Certificates, as applicable held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Bonds, Principal Strip Certificates and Tax Credit Certificates, as applicable for the Beneficial Owners.

If less than all of the Bonds are being redeemed, redemption of the Bonds will be effected in \$40,000 increments, so that any Bond redeemed in part will have a remaining notional amount of \$40,000 or an integral multiple thereof. DTC will effect each redemption of the Bonds by redeeming pro rata from each person who is the

Owner of a Bond to be redeemed on a redemption date, an amount of such Bonds determined by multiplying the principal amount of the Bonds to be redeemed on said redemption date by a fraction, the numerator of which is the principal amount of the Bonds owned by such Owner and the denominator of which is the principal amount of all the Bonds outstanding immediately prior to the date. Redemption of the Principal Strip Certificates and Tax Credit Certificates relating to the Bonds will be redeemed in the same manner as the Bonds and the redemption price therefore will be allocated to the Principal Strip Certificates and Tax Credit Certificates in proportions set forth in the Table of Redemption Values set forth in Appendix B.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Paying Agent as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest, if any, on the Bonds, Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee) nor the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments of principal and premium, if any, of the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

THE CITY AND THE PAYING AGENT CAN NOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF AND INTEREST, IF ANY, ON THE BONDS PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE CITY NOR THE PAYING AGENT IS RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE BONDS, INTEREST BEARING BONDS, PRINCIPAL STRIP CERTIFICATES, TAX CREDIT CERTIFICATES AND CASH INTEREST CERTIFICATES, IF ANY, AS APPLICABLE, OR AN ERROR OR DELAY RELATING THERETO.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond, Interest Bearing Bond, Principal Strip Certificate, Tax Credit Certificate and Cash Interest Certificate, if any, as applicable, certificates will be printed and delivered.

DTC may discontinue providing its services as depository with respect to the Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Bonds, Principal Strip Certificates and Tax Credit Certificates, if any, and the Interest Bearing Bonds, Principal Strip Certificates and Cash Interest Certificates, if any, as applicable, certificates are required to be printed and delivered.

DTC assumes no responsibility for the processing of Tax Credits, whether or not stripped, by the Beneficial Owners thereof, nor will it play any role in the process by which a Beneficial Owner might claim all or a ratable share of a Tax Credit against its federal income tax liability arising while the Bonds are outstanding. Beneficial Owners shall have the sole responsibility for claiming Tax Credits and resolving any impact that ownership of the

Tax Credits may have upon their federal income tax or state income tax liability as a consequence of ownership thereof.

CERTAIN INVESTOR CONSIDERATIONS REGARDING THE BONDS

The Bonds and the related Tax Credit Certificates are a new product which derive from the Recovery Act, and there is currently no secondary market for either the Bonds or the Tax Credit Certificates. There can be no assurance that a secondary market will develop, or if a secondary market does develop, that it will provide Owners with liquidity or continue to exist for the full term of the Bonds. If a secondary market develops, the Bonds and Tax Credit Certificates may be subject to greater price volatility than traditional municipal bonds. The mechanics of transfer and registration and the developing nature of the tax treatment of the Bonds and Tax Credit Certificates may further limit the liquidity and market value of the Bonds and Tax Credit Certificates.

The Tax Credits are not refundable tax credits; if an Owner of a Bond or a Tax Credit Certificate has income tax liability for a given year (after taking into account certain other tax credits) less than the amount of Tax Credits to which it is entitled for that year, then the Owner would be required to carry forward any excess tax credit to subsequent tax years. See “FEDERAL TAX CREDITS” below.

The Tax Credits to which an Owner is entitled on a particular Tax Credit Allowance Date are not transferable after such Tax Credit Allowance Date. To the extent that an Owner is not a U.S. taxpayer or does not now or will not in the future have a federal income tax liability, and owns a Bond or a Tax Credit Certificate on a Tax Credit Allowance Date, the related Tax Credit cannot be utilized. There can be no assurance that an Owner would be able to sell a Bond or a Tax Credit Certificate prior to the related Tax Credit Allowance Date.

As noted above, at the date of this Official Statement no Guidance has been issued by the Secretary of the Treasury with respect to the allowance of a Tax Credit to the Owner of a Bond or the separation of the Principal Component and the Tax Credit Component thereof. Accordingly, it may be necessary following the date of delivery of the Bonds for the City and the Paying Agent to make changes to the transfer, exchange, stripping or other provisions of the Paying Agent Agreement to comply with any Guidance issued by the Secretary of the Treasury. There can be no assurance that such Guidance will be issued or that, if issued, the City and the Paying Agent will be legally authorized or willing to take actions sufficient to permit separation of the Tax Credit Certificates from the Bonds.

FEDERAL TAX CREDITS

The following discussion of Federal Tax Credits was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

Tax Opinion

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the City (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, the Bonds are “qualified school construction bonds” within the meaning of Section 54F of the Code. Owners of Bonds as to which the related Tax Credit Certificate has not been separated, as of the applicable Tax Credit Allowance Date are entitled, subject to the limitations of Code Section 54A, to a federal income tax credit for such taxable year. However, the amount of the Tax Credit will be treated as interest for federal tax purposes and will be included in gross income of the Owners for such purposes.

The Code imposes various restrictions, conditions and requirements relating to the qualification of the Bonds as “qualified school construction bonds” within the meaning of Section 54F of the Code. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that the Bonds continue to qualify as qualified school construction bonds. Inaccuracy of these representations or

failure to comply with these covenants may result in loss of the Tax Credits, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants.

Although Bond Counsel is of the opinion that the Bonds are “qualified school construction bonds” within the meaning of Section 54F of the Code, the ownership or disposition of, or the accrual or receipt of the Tax Credit with respect to, the Bonds may otherwise affect an Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Owner or the Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Bond Counsel is also of the opinion that, under existing law, any interest on the Interest Bearing Bonds, if any, is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to the treatment of the federal Tax Credit on the Bonds for purposes of Massachusetts personal income taxation or other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

Bond Counsel also expresses no opinion as to the tax consequences of “stripping” of the Bonds or related actions including, without limitation, tax consequences to Owners of the separation of the Principal Component and Tax Credit Component of a Bond, the purchase or sale of Principal Strip Certificates or Tax Credit Certificates, the recombining of Principal Strip and Tax Credit Certificates, the exchange of Bonds or related Principal Strip Certificates or Tax Credit Certificates for Interest Bearing Bonds, the separation of Interest Bearing Bonds into Principal Strip Certificates and Cash Interest Certificates, the purchase or sale of Principal Strip Certificates or Cash Interest Certificates, the recombining of Principal Strip Certificates and Cash Interest Certificates or the status of Interest Bearing Bonds under Section 103 of the Code.

A complete copy of the proposed form of the opinion of Bond Counsel is set forth in Appendix D hereto.

Amount of Tax Credit

The amount of the Tax Credit with respect to a Bond is equal to twenty-five percent (25%) of the product of the Tax Credit Rate times the outstanding principal amount of the Bond on the relevant Tax Credit Allowance Date. The Tax Credit allowed for the first credit allowance date of December 15, 2009 is the portion of the Tax Credit otherwise allowed on such date from the date of issuance of the Bonds (as opposed to the full credit period starting September 15, 2009). If a Bond is redeemed on a date other than March 15, June 15, September 15, or December 15, the redemption date will be a Tax Credit Allowance Date and the amount of the associated Tax Credit will be a ratable portion of the Tax Credit otherwise allowed based on the earlier Tax Credit Allowance Date. Owners of the Tax Credit Component, whether held as Tax Credit Strips or as part of the Bonds, as of the applicable Tax Credit Allowance Date will receive the Tax Credit.

Limitation on Tax Credit

The Tax Credit allowed may not exceed the sum of the taxpayer’s regular tax liability and alternative minimum tax liability under Section 55 of the Code less, in general, the taxpayer’s other tax credits (except refundable tax credits set forth in subparts C (Sections 31-37) and J (Section 54A) of part IV of subchapter A of the Code). The Tax Credit is not considered a passive activity credit under Code Section 469(d), and therefore, such credit is not subject to the limitations with respect to passive activity credits.

Carryover of Unused Tax Credit Amount

If an Owner of a Bond or a Tax Credit Certificate cannot use all of the Tax Credit otherwise allocable for the taxable year, such Owner is allowed to carry forward to a subsequent tax year the unused portion of the credit deemed paid on such credit allowance date.

Tax Credit Amount Included in Income as Deemed Interest

Section 54A of the Code requires the Owners of the Bonds, to include the amount of the Tax Credit (determined without reference to the limitation described above under “Limitation on Tax Credit”) in gross income. Unless the Bond has been separated into its Principal Component and Tax Credit Components, such interest should be reported in accordance with the Owner’s ordinary method of tax accounting (cash or accrual).

Tax Credit’s Effect on Estimated Income Tax Payments

The credit under Section 54A of the Code may be taken into account by a taxpayer in computing the amount of quarterly estimated tax payments required to be paid by such taxpayer. Individual calendar year taxpayers should note that the March 15 and December 15 credit allowance dates do not correspond to the regular estimated tax payment dates of April 15 and January 15.

GENERAL TAX MATTERS

The following discussion of General Tax Matters was written to support the promotion and marketing of the Bonds and was not intended or written to be used, and cannot be used, by a taxpayer for the purpose of avoiding United States federal income tax penalties that may be imposed. Each taxpayer should seek advice based on the taxpayer’s particular circumstances from an independent tax advisor.

This section summarizes certain material federal income tax consequences relating to an investment in the Bonds based upon the current provisions of the Code, its legislative history, treasury regulations, administrative pronouncements and judicial decisions, all of which are subject to change, possibly with retroactive effect. The summary deals only with Bonds held as capital assets within the meaning of Section 1221 of the Code and does not address tax consequences of holders of Bonds that may be relevant to investors in special tax situations (such as financial institutions, taxpayers subject to the alternative minimum tax, life insurance companies, tax-exempt organizations, dealers in securities or currencies, traders in securities that elect to mark to market, or Bonds held as a hedge or as part of a hedging, straddle, constructive sale or conversion transaction). The summary does not purport to be a complete discussion of all federal income tax consequences relating to making an investment in the Bonds and is included for general information only. All persons are urged to consult their own tax advisors to determine the specific tax consequences of making an investment in the Bonds, including any state, local or non-U.S. tax consequences.

As noted above, no Guidance has been issued by the Secretary of the Treasury with respect to the allowance of the Tax Credit to the Owners of the Bonds or the separation of the Principal Component and the Tax Credit Components thereof. Issuance of such Guidance may change or otherwise affect the federal income tax consequences described below of an investment in the Bonds.

Tax Status of the Bonds

The Bonds will be treated, for federal income tax purposes, as debt instruments. Accordingly, amounts treated as interest will be included in the income of the Owner as interest as it is paid or deemed to be paid (or, if the Owner is an accrual method taxpayer, as it is accrued).

Owners of the Bonds that allocate a basis in the Bonds that is greater than the principal amount of the Bonds should consult their own tax advisors with respect to whether or not they should elect to amortize such premium under section 171 of the Code.

If a holder purchases the Bonds in connection with the initial issuance of the Bonds for an amount that is less than the principal amount of the Bonds (other than a purchase price equal to or greater than the issue price of the Bond) and such difference is not considered to be de minimis, then such discount will represent market discount that ultimately will constitute ordinary income (and not capital gain). Further, absent an election to accrue market discount currently, upon a sale or exchange of a Bond, a portion of any gain will be ordinary income to the extent it represents the amount of any such market discount that was accrued through the date of sale. In addition, absent an

election to accrue market discount currently, the portion of any interest expense incurred or continued to carry a market discount bond that does not exceed the accrued market discount for any taxable year, will be deferred.

Original Issue Discount

For federal income tax purposes, original issue discount (“OID”) is the excess of the stated redemption price at maturity of a Bond over its issue price, if such excess equals or exceeds a de minimis amount (generally 1/4% of 1% of the Bond’s stated redemption price at maturity multiplied by the number of complete years to its maturity from its issue date or, in the case of a Bond providing for the payment of any amount other than qualified stated interest (as defined below) prior to maturity, multiplied by the weighted average maturity of such Bond). The issue price of a Bond equals the first price at which a substantial amount of such Bond has been sold (ignoring sales to bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers). The stated redemption price at maturity of a Bond is the sum of all payments provided by the Bond at maturity other than “qualified stated interest” payments. The term “qualified stated interest” generally means stated interest that is unconditionally payable in cash or property (other than debt instruments of the issuer) at least annually at a single fixed rate. It is expected that Treasury Regulations will provide that the amount of the Tax Credit must be treated as if it were a payment of “qualified stated interest” on each Tax Credit Allowance Date.

Payments (including deemed payments) of qualified stated interest on a Bond are taxable to an Owner as ordinary interest income at the time such payments are accrued or are received (in accordance with the Owner’s regular method of tax accounting). An Owner of an original issue discount Bond must include OID in income as ordinary interest for United States federal income tax purposes as it accrues under a constant yield method in advance of receipt of the cash payments attributable to such income, regardless of such Owner’s regular method of tax accounting. Under the OID rules, Owners generally will have to include in income increasingly greater amounts of OID in successive accrual periods. An Owner’s adjusted basis in a Bond is to be increased by the amount of such accruing OID for purposes of determining taxable gain or loss on the sale or other disposition of a Bond, or a component thereof, for federal income tax purposes. Prospective investors should consult their own tax advisors concerning the calculation of OID with regard to a Bond. Holders may generally, upon election, include in income all interest (including stated interest, acquisition discount, OID, de minimis OID, market discount, de minimis market discount, and unstated interest, as adjusted by any amortizable bond premium or acquisition premium) that accrues on a debt instrument by using the constant yield method applicable to OID, subject to certain limitations and exceptions.

Tax Basis

An Owner’s initial tax basis in a Bond generally will be equal to the purchase price paid by such Owner for such Bond. An Owner’s tax basis in a Bond will be increased by the amount of OID, if any, that is included in the Owner’s income, and decreased by the amount of premium, if any, amortized as a reduction to interest income, pursuant to the foregoing rules.

Sale of Bonds

Upon the sale of a Bond, or a component thereof, for cash, an Owner will recognize gain or loss equal to the difference between the amount of cash received (other than cash attributable to accrued interest) and such Owner’s adjusted tax basis in the Bond, or component. Such gain or loss will be capital gain or loss if the Bond is a capital asset to such Owner. If an Owner sells a Bond between two Tax Credit Allowance Dates, cash received attributable to accrued interest (including accrued amounts treated as deemed interest with respect to the next ensuing Tax Credit) will constitute ordinary interest income to a cash method Owner, and a return of capital with respect to interest accrued as income by an accrual method Owner. Such selling Owner shall not, however, be entitled to claim any portion of the next ensuing Tax Credit.

Tax Considerations Applicable to Strips

For purposes of this subsection, “Strip” means a Tax Credit Strip or a Principal Strip, and “U.S. Person” means a citizen or resident of the United States, a corporation organized in or under the laws of the United States or

any political subdivision thereof, an estate the income of which is includible in gross income for United States tax purposes regardless of its source or a trust if a United States court is able to exercise primary supervision over administration of the trust and one or more U.S. Persons have authority to control all substantial decisions of the trust. The term “U.S. beneficial owner” means a U.S. Person that is a beneficial owner of a Strip and any other person which is a beneficial owner of a Strip that is otherwise subject to United States federal income taxation on a net basis in respect of income attributable to a Strip.

U.S. Beneficial Owners

A U.S. beneficial owner is subject to United States federal income taxation on the income of a Strip, and there is no special exemption from United States federal income, estate or gift tax with respect to Strips.

A U.S. beneficial owner that elects to strip a Bond into its Tax Credit and Principal Components and to dispose of one or more of such components will be required to include in income all market discount accrued on the Bond to the date of disposition (to the extent that such income has not previously been included in income), and the U.S. beneficial owner’s basis in the Bond will be increased, immediately prior to the disposition of one of the Strips, by the amount so included in income. Upon the disposition of a Strip, the U.S. beneficial owner will be required to recognize gain or loss equal to the difference between the amount realized on the disposition of the Strip and the U.S. beneficial owner’s basis in the Strip immediately prior to the disposition of one of the Strips. For purposes of determining that basis, the U.S. beneficial owner will be required to allocate its tax basis in the Bond immediately prior to the sale (as adjusted in the manner detailed above) between the Tax Credit and Principal Components based on their respective fair market values on the date of the sale.

A U.S. beneficial owner of a Strip will accrue income on the Strip in accordance with the OID rules set forth in the Code. In this regard, the application of the OID rules to the Strips is subject to significant uncertainty, and therefore purchasers of the Strips are urged to consult with their own tax advisors. Generally, however, it is anticipated that each U.S. beneficial owner of a Strip will be required to include in income, as OID, the difference between (1) the stated redemption price at maturity for a Principal Strip and the amount of the Tax Credit for a Tax Credit Strip owned by such person (which generally would include all payments (or deemed payments) to be made on the Strip subsequent to the date that the stripping was effected or, if later, the date of the U.S. beneficial owner’s purchase of the Strip) and (2) the U.S. beneficial owner’s purchase price for the Strip (or, in the case of a person who effects a stripping and disposes of one or more of the Strips, the portion of the person’s basis in the Bond which is allocable to the retained Strips, as determined pursuant to the rules set forth in the preceding paragraph).

The amount of OID on a Strip (determined as set forth above) will be includible on a constant-yield basis in the income of a U.S. beneficial owner of a Strip over the life of the Strip (excluding, with respect to certain U.S. beneficial owners, Strips having a maturity of one year or less from the date of purchase – which Strips would be subject to special OID rules which are discussed below), even in years in which the owner of the Strip does not receive any actual payment or credit allowance. The amount of OID that must be included in income each year by the U.S. beneficial owner of a Strip will be equal to the sum of the daily portions of the OID that accrued during each day of the year during which the U.S. beneficial owner owned the Strip. The daily portions will be determined by allocating to each day of the accrual period, as defined below, a pro rata portion of an amount equal to the adjusted issue price of the Strip at the beginning of the accrual period, also as defined below, multiplied by the yield to maturity of the Strip, determined by compounding at the close of each accrual period and properly adjusted for the length of the accrual period. For purposes of these calculations, (i) the accrual periods may, generally, be of any length and may vary in length over the term of the Strip, provided that each accrual period is no longer than a year and that each scheduled payment of principal and deemed interest occurs either on the final day of an accrual period or on the first day of an accrual period, and (ii) the adjusted issue price of a Strip will be the U.S. beneficial owner’s purchase price for the Strip (or, in the case of a person who effects a stripping and disposes of one or more of the Strips, the portion of the person’s basis in the Bond which is allocable to the retained Strips, as determined pursuant to the rules set forth above), increased by the OID accrued by the U.S. beneficial owner in previous accrual periods and decreased by any payments received or deemed received by the U.S. beneficial owner in prior accrual periods. The amount of OID allocable to an initial short accrual period may be computed using any reasonable method if all other accrual periods other than a final short accrual period are of equal length. The amount of OID allocable to the final accrual period is the difference between (x) the amount payable (or deemed payable) at the maturity of the Strip and (y) the Strip’s adjusted price as of the beginning of the final accrual period. The foregoing rules will

generally be applied to each Strip acquired separately. In certain circumstances, Strips acquired (or retained by the person stripping a Bond) may be treated as a single instrument for tax purposes.

In general, a cash basis U.S. beneficial owner who purchases a Strip the payment (or deemed payment) with respect to which is due not later than one year from the date of issuance ("short-term Strips") is not required to accrue OID (as determined under the special rule described below for the purposes of this paragraph) for United States federal income tax purposes unless it elects to do so. Accrual basis U.S. beneficial owners and certain other U.S. beneficial owners (including certain pass-through entities and electing cash basis U.S. beneficial owners) who purchase a short-term Strip and any U.S. beneficial owners who strip a Bond into its Tax Credit and Principal Components and who retain one or more such components are required to accrue OID on short-term Strips on either a straight-line basis or under the constant-yield method (based on daily compounding), at the election of the U.S. beneficial owner. In the case of a U.S. beneficial owner not required and not electing to include OID on a short-term Strip in income currently, any gain realized on the sale or retirement of the short-term Strip will be ordinary income to the extent of the OID accrued on a straight-line basis (unless an election is made to accrue the OID under the constant-yield method) through the date of sale or retirement. U.S. beneficial owners who are not required and who do not elect to accrue OID on short-term Strips will be required to defer deductions for interest on borrowings allocable to short-term Strips in an amount not exceeding the deferred income until the deferred income is realized.

Upon the sale or exchange of a Strip, a U.S. beneficial owner generally will recognize capital gain or loss (except to the extent of accrued and unpaid interest, and subject to the exception applicable to certain short-term Strips, as discussed in the preceding paragraph) in an amount equal to the difference between the amount realized on the sale or exchange and the U.S. beneficial owner's adjusted tax basis in the Strip. A U.S. beneficial owner's adjusted tax basis in a Strip will generally be its cost, increased by the amount of the OID included in the U.S. beneficial owner's income with respect to the Strip.

Tax Reporting

The Paying Agent shall prepare such tax information returns as may be required by the IRS. To date, the IRS has not issued any rulings or regulations or otherwise provided any guidance with respect to the mechanics of reporting of the Tax Credits as the equivalent of interest income, the reporting of the availability of the Tax Credits to the Owners thereof, or the accrual of OID on the Bonds. The failure of the Paying Agent to furnish a tax reporting form to an Owner does not necessarily mean that the Owner has no taxable income. In addition, any form furnished to an Owner may specify an amount of taxable income different from the actual amount of taxable income reportable by such Owner if such Owner is not the original purchaser of a Bond. The Owner of a Tax Credit Certificate, whether held as a Tax Credit Strip or as part of a Bond, must include on its income tax return information with respect to the amount of taxable interest accrued as original issue discount during the taxable year.

U.S. Federal Information Reporting and Backup Withholding

Under current United States federal income tax law, a 28% backup withholding tax requirement may apply to certain payments of original issue discount on, and the proceeds of a sale, exchange or redemption of, the Bonds, Principal Strips or Tax Credit Strips. The IRS has not provided guidance regarding how the 28% backup withholding tax requirement will apply to the deemed interest payments represented by the Tax Credits. Therefore, it is not clear how or whether such withholding would occur. In addition, certain persons making such payments are required to submit information returns (i.e., IRS Forms 1099) to the IRS with regard to those payments. Backup withholding and information reporting will generally not apply with respect to payments made to certain exempt recipients such as corporations or certain exempt entities.

Foreign Investors

Payments (including deemed payments) on the Bonds, Principal Strips or Tax Credit Strips to a non-U.S. holder that has no connection with the United States other than holding its Bond, Principal Strip or Tax Credit Strip generally will be made free of withholding tax, as long as that the holder has complied with certain tax identification and certification requirements.

LITIGATION

No litigation is pending or, to the knowledge of the City's Corporation Counsel, threatened (a) seeking to restrain or enjoin the issuance or delivery of the Bonds, (b) contesting or affecting any authority for or the validity of the Bonds, (c) contesting the power of the City to issue the Bonds or the power of the City to offer and sell the Bonds to the Underwriter, (d) contesting the power of the City to levy and collect taxes to pay the Bonds (e) contesting the corporate existence or boundaries of the City, or (f) contesting the title of officials of the City who have acted with respect to the proceedings for the issuance and sale of the Bonds to their respective offices.

There are pending in courts within the Commonwealth various suits in which the City is a defendant. No litigation is pending or threatened which is likely to result, either individually or in the aggregate, in final judgments against the City which would affect materially its ability to pay the principal of and interest on the Bonds when due or which would affect materially its financial condition.

CREDIT RATING

Moody's Investors Service Inc., ("Moody's"), 7 World Trade Center at 250 Greenwich Street, New York, New York has assigned a rating of "Aa1" to the Bonds, reflecting the City's capacity to pay debt service. Such rating reflects only the views of Moody's and any desired explanation of the significance of such rating should be obtained from the rating agency. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency concerned, if in the judgment of such rating agency, circumstances so warrant. Any such downward revision or withdrawal of any such rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

All legal matters incidental to the authorization and issuance of the Bonds are subject to the approval of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the City. Reference should be made to the form of opinion set forth in Appendix C for the matters to be covered therein. In addition, Corporation Counsel of the City will certify as to the accuracy of the statements contained in the first paragraph under the caption "Litigation."

INDEPENDENT AUDITORS

The financial statements of the City of Boston included as Exhibit I to Appendix A of this Official Statement have been audited by KPMG LLP, independent certified public accountants, to the extent and for the period indicated in their report thereon.

FINANCIAL ADVISOR

Public Financial Management, Inc. ("PFM") has served as financial advisor to the City for the issuance of the Bonds. PFM is not obligated to undertake, and has not undertaken, either to make an independent verification of or to assume responsibility for, the accuracy, completeness, or fairness of the information contained in this Official Statement. PFM is an independent financial advisory firm and is not engaged in the business of underwriting, trading, or distributing securities or other public securities.

CONTINUING DISCLOSURE

The City will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the City by not later than 365 days after the end of each fiscal year (the "Annual Report"), and to provide notices of occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D (the "Certificate"). The Certificate will be executed on the delivery date of the Bonds and incorporated by reference in the Bonds. The City has executed previous undertakings to provide annual reports or notices of material events in accordance with Rule

15c2-12 promulgated by the Securities and Exchange Commission and has never failed to comply in all material respects with any such undertaking, except that, due to an administrative oversight, the annual reports required to be filed for fiscal years 2002, 2003 and 2004 were not filed within the time periods required under certain of such undertakings. The City has since filed a report to comply with such continuing disclosure undertakings, and it has implemented procedures to ensure timely filing of all future annual reports and notices of material events required thereunder.

In order to assist the City in carrying out its obligations under the Certificate and under its other continuing disclosure undertakings, the City has entered into an agreement with Digital Assurance Certification, L.L.C. (“DAC”) pursuant to which DAC serves as dissemination agent for the City with respect to the continuing disclosure filings required to satisfy such obligations.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers or holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion are intended merely as opinion and not as representation of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no change in the affairs of the City, or its agencies and authorities, since the date hereof.

CITY OF BOSTON, MASSACHUSETTS

By: /s/ Lisa Calise Signori
Director of Administration and Finance and Collector-Treasurer

Dated: October 28, 2009

BOS111 12430868.1

CITY OF
BOSTON, MASSACHUSETTS



INFORMATION STATEMENT
Dated March 1, 2009

This Information Statement contains certain general and financial information concerning the City of Boston, Massachusetts (the "City"). The information is authorized by the City to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the City, and to the nationally recognized municipal securities information repositories currently recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. This Information Statement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Lisa Calise Signori, Director of Administration and Finance and Collector-Treasurer, Boston, Massachusetts.

Any statements in this Information Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Information Statement nor any sale made pursuant to any official statement or offering memorandum to which it is appended, in which it is included by reference or with which it is distributed shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof.

This Information Statement contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the City, the inclusion in this Information Statement of such forecasts, projections and estimates should not be regarded as a representation of the City that such forecasts, projections and estimates will occur. Such forecasts, projections and estimates are not intended as representations of fact or guarantees of results.

If and when included in this Information Statement, the word "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. Such risks and uncertainties include, among others, general economic and business conditions, changes in political, social and economic conditions, regulatory initiatives and compliance with governmental regulations, litigation and various other events, conditions and circumstances, many of which are beyond the control of the City. These forward-looking statements speak only as of the date of this Information Statement. The City disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the City's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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THE CITY

The City, incorporated as a town in 1630 and as a city in 1822, exists under Chapter 486 of the Acts of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth which, as amended, constitute the City's Charter.

The Mayor is the chief executive officer of the City. Thomas M. Menino, the Mayor of the City, was reelected to serve a fourth four-year term from January 2006 through January 2010. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The portion of the City budget covering appropriations for all departments and operations of the City, except the School Department, the Boston Public Health Commission, and the Office of the Sheriff of Suffolk County, is prepared under the direction of the Mayor. Prior to his first elected term, Mayor Menino had served for approximately four months as acting Mayor. Prior to his service as acting Mayor, the Mayor served on the City Council. He served as Chairman of the City Council's Ways and Means Committee from 1988 to 1992, and was elected President of the City Council in 1993.

The legislative body of the City is the thirteen-member City Council. The City Council enacts ordinances and adopts orders, which the Mayor may either approve or veto. Ordinances and orders, except for orders for the borrowing or appropriation of money and the reorganization of City departments, may be enacted by the City Council over the Mayor's veto by a two-thirds vote. The City Council may reject or reduce a budget submitted to it by the Mayor, but the City Council may not increase a budget. For a description of the budget process, see "The City—Budget Process" herein.

The members of the City Council, all of whose current terms will end in January 2010, are set forth below.

Michael P. Ross (President)	District 8
John R. Connolly	At Large
Michael F. Flaherty, Jr.	At Large
Stephen J. Murphy	At Large
S.H. Samuel Yoon	At Large
Salvatore J. LaMattina	District 1
William P. Linehan	District 2
Maureen E. Feeney	District 3
Charles C. Yancey	District 4
Robert J. Consalvo	District 5
John M. Tobin	District 6
Charles H. Turner	District 7
Mark B. Ciommo	District 9

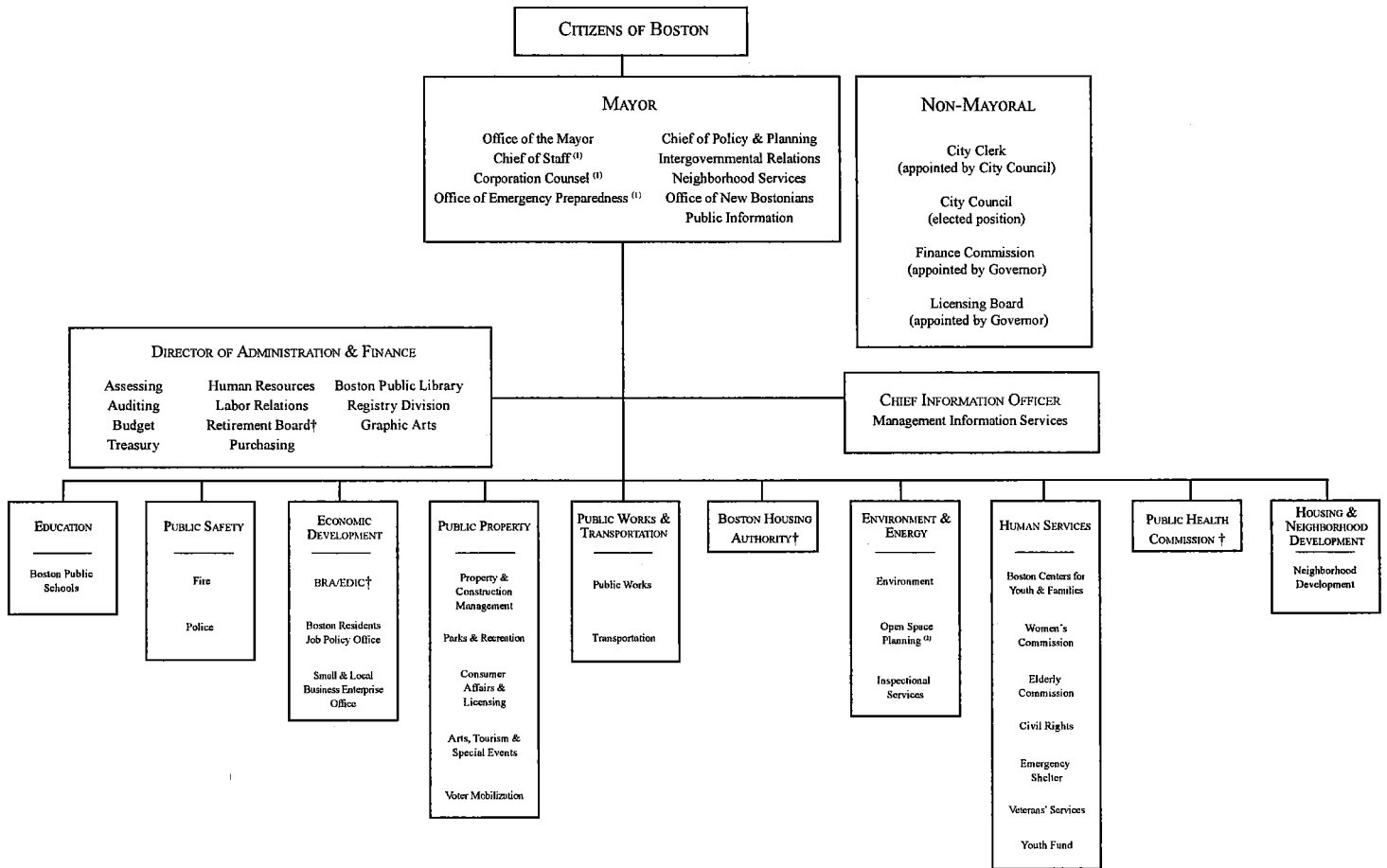
Organization of City Government

Mayor Menino established a cabinet form of government to recognize the major functional responsibilities of City government, to facilitate improvements in the conduct of the executive and administrative business of the City, and to eliminate duplication and waste.

The structure of the Mayor's cabinet is set forth in the organizational chart on the following page.

ORGANIZATION OF CITY GOVERNMENT

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† For a description of the activities of the Retirement Board, see "Retirement Systems," herein. The Boston Redevelopment Authority, Economic Development Industrial Corporation, Boston Housing Authority and Boston Public Health Commission are bodies politic and are political subdivisions of the Commonwealth. For a description of such entities, see "City - Debt of Agencies Related to the City."

(1) Has cabinet rank

(2) Programmatically within this cabinet; financially in Parks & Recreation.

With the exception of the Superintendent of Schools, the City officials profiled below serve at the pleasure of the Mayor.

Chief of Staff

Judith Kurland was appointed Chief of Staff in September 2006. Prior to her appointment Ms. Kurland served as a Senior Consultant to DCABoston, a management consulting firm dedicated to social progress and community change. Previously, Ms. Kurland had served as Regional Director of the United States Department of Health and Human Services, and as Commissioner of the City's former Department of Health and Hospitals. The Chief of Staff is the chair of the Mayor's cabinet, and as such has an advisory role over all operations of City government. The Chief of Staff is also charged with supervising and directing the operations of the Mayor's office, including scheduling, security, policy and planning, press, constituent services and intergovernmental relations.

Chief of Policy and Planning

Michael J. Kineavy was appointed Chief of Policy and Planning in August 2004. Prior to his appointment, Mr. Kineavy served as Director of the Mayor's Office of Neighborhood Services. The Chief of Policy and Planning oversees the development and implementation of all policy initiatives for the City.

Chief Information Officer

William G. Oates was appointed Chief Information Officer in June 2006. Prior to his appointment Mr. Oates served as Senior Vice President and Chief Information Officer of Starwood Hotels and Resorts, Worldwide, Inc. The Chief Information Officer oversees the Management and Information Services Department, which is responsible for leveraging the use of technology and information, as well as working to improve the business of government and delivery of service.

Director of Administration and Finance and Collector-Treasurer

Lisa Calise Signori was named Director of Administration & Finance in July 2007. She is a member of the Mayor's Cabinet and is responsible for the City's human and financial resources, including Human Resources, Labor Relations, Treasury, Assessing, Auditing, Budget, Purchasing, and the State-Boston Retirement Board. Ms. Signori continues to hold her previous title of Collector-Treasurer.

Serving with the City of Boston since 1994, Ms. Signori served as Budget Director from 1999 to 2003. In October 2003, Ms. Signori was appointed Chief Financial Officer and Collector-Treasurer. In addition to her other duties, the Collector-Treasurer is custodian of approximately 300 City trust funds, serving as trustee of nearly half of them. Ms. Signori is also an ex officio member of the Massachusetts Convention Center Authority.

The City officials with principal responsibility for its finances, subject to the approval of the Collector-Treasurer, are as follows:

Budget Director

Karen A. Connor was appointed Budget Director in December 2005. Prior to her appointment, Ms. Connor served, respectively, as Acting Budget Director and as a Deputy Budget Director. The Budget Director is responsible for the supervision of the Office of Budget Management ("OBM"), which develops and oversees the operating budget for all departments and operations of the City except the School Department. OBM is also responsible for the City's Capital Plan. OBM prepares and monitors the City's capital budget and coordinates strategic and long-range capital planning for City departments.

City Auditor

Sally D. Glora was appointed Acting City Auditor in March 1990, and City Auditor in December 1990. Prior to her appointment as Acting City Auditor, Ms. Glora served as the Deputy City Auditor. The Auditor is responsible for monitoring the internal controls, managing grant funds, providing financial reports, maintaining the books and records for the City, and for approving all payments made by the City. Ms. Glora is an *ex officio* member of the State-Boston Retirement Board.

Commissioner of Assessing

Ronald W. Rakow was appointed Commissioner of Assessing in March 1993. Prior to his appointment, Mr. Rakow served as the Acting Commissioner of Assessing from September 1992 to March 1993. Prior to his appointment as the Acting Commissioner of Assessing, Mr. Rakow served as the Director of Research and Standards for the City's Assessing Department. The Commissioner of Assessing is responsible for supervision of the City's Assessing Department and the valuation for purposes of the tax levy of real and personal property located in the City.

Chief Economic Development Officer

John F. Palmieri was appointed Chief Economic Development Officer and Director of the Boston Redevelopment Authority (the "BRA") in September 2007. Prior to his appointment, Mr. Palmieri served as Director of Development Services in Hartford, Connecticut. The Chief Economic Development Officer is responsible for planning, zoning, and economic development for the City. The Economic Development Cabinet is comprised of the BRA, the Economic Development and Industrial Corporation ("EDIC"), including the EDIC's office of Jobs and Community Services, the Office of Small and Local Business Enterprises, and the Office of Boston Residents Job Policy.

Chief of Education

Dr. Carol R. Johnson was named Superintendent of the Boston Public Schools by the Boston School Committee in June 2007, and her term extends to June 2012. Prior to her appointment by the Boston School Committee, Dr. Johnson served as Superintendent of the Memphis City Schools in Memphis, Tennessee, the largest district in the state. Dr. Johnson previously served as Superintendent of the Minneapolis Public Schools, where she was named Minnesota Superintendent of the Year. The Education Cabinet is responsible for managing the Boston Public Schools. Among the Education Cabinet's responsibilities is the development of a plan for schools and other City and non-City agencies to develop cooperative programs to guarantee that the best possible resources are available to Boston's children. For a description of the student population, staffing, curricula, and governance of the Boston Public Schools, see "The City—Principal Government Services—Schools" below.

Chiefs of Public Safety

Edward F. Davis, III, the City's Police Commissioner, and Roderick J. Fraser, Jr., the City's Fire Commissioner, are the Chiefs of the Public Safety Cabinet. Commissioner Davis, a veteran with more than 30 years of law enforcement experience, was appointed Police Commissioner in October 2006. Commissioner Fraser, a 20-year Navy veteran finishing as the Commanding Officer of the USS Underwood, and who had also served as Director of Engineering, Damage Control and Firefighting Training at the Surface Warfare Officers School Command in Newport, Rhode Island, was appointed Fire Commissioner in September 2006. The City's Police and Fire Departments provide and promote public safety and protection services, firefighting and fire prevention services. For a description of Police and Fire Department resources and personnel see "The City—Principal Governmental Services—Public Safety" below.

Director of the Office of Emergency Preparedness

Donald E. McGough was appointed Director of the City's Office of Emergency Preparedness in January 2008. Prior to his appointment Mr. McGough was employed as a Senior Homeland Security Consultant at the Public Consulting Group, Inc. Mr. McGough previously served as Assistant Chief of the Bureau of Administration and Technology for the Police Department, and as Chief of Staff to the Police Commissioner. The Office of Emergency Preparedness is responsible for obtaining, allocating and managing state and federal funds designated for Emergency Preparedness initiatives, and to facilitate communication and cooperation across towns and cities in specific disciplines, such as law enforcement, fire service, emergency management, emergency medical services, public health, healthcare, and government administration.

Chief of Human Services

J. Larry Mayes was appointed Chief of Human Services in September 2004. The Human Services Cabinet is responsible for providing human and other support services for all of Boston's residents through its seven departments: Boston Centers for Youth and Families, the Boston Youth Fund, the Elderly Commission, the Emergency Shelter Commission, the Women's Commission, the Veteran's Services Department, and the Office of Civil Rights, which is comprised of the Fair Housing Commission, the Commission for People with Disabilities, and the Human Rights Commission.

Chief of Public Health

Dr. Barbara Ferrer was named Executive Director of the Boston Public Health Commission by its Board in March 2007. In that capacity, Dr. Ferrer joined the Mayor's cabinet as the Chief of Public Health. Prior to her appointment Dr. Ferrer served for five years as the Commission's Deputy Director where she played a key role in developing strategies to improve Boston's infant mortality rate and end racial and ethnic health disparities. The Commission, an independent agency, is a body politic and corporate and political subdivision of the Commonwealth. The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. The Commission is divided

into six programmatic areas, including: the Emergency Medical Service, which includes the City's ambulances, EMTs and paramedics responding to the "911" emergency system; Homeless Services; Communicable Disease Control; Substance Abuse Services; Community Health; and Child and Family Health. For additional information concerning the Boston Public Health Commission see "The City—Principal Government Services—Public Health" below.

Chief of Public Property

Michael Galvin was appointed Chief of Public Property in August 1994. Prior to his appointment, Mr. Galvin was employed by NYNEX and had previously served as the City's first "Executive on Loan." The Public Property Cabinet consists of the Parks and Recreation Department (except for the department's planning function, which falls under the Environmental and Energy Services Cabinet), the Election Department, the Office of Arts, Tourism and Special Events, the Office of Consumer Affairs and Licensing, and the Property and Construction Management Department, of which Mr. Galvin is Commissioner and Director of Public Facilities, and which includes Capital Construction, the Animal Control Unit, and Building Maintenance and Systems. The Cabinet's charge includes investigating opportunities to apply technological innovations to reduce costs or improve the delivery of basic services.

Chief of Environmental and Energy Services

James W. Hunt, III, was appointed Chief of Environmental and Energy Services in March 2005. Prior to his appointment, Mr. Hunt served as Assistant Secretary for the Commonwealth's Executive Office of Environmental Affairs and was responsible for administering the Massachusetts Environmental Policy Act. The Chief of Environmental and Energy Services is responsible for environmental and energy policies for the City and serves as chair of the City's Energy Management Board. The Environmental and Energy Services Cabinet is comprised of the Environment Department, Inspectional Services Department, the Parks and Recreation Department's Open Space Planning, Olmsted Park Revitalization, and Boston's Recycling Program. The Chief of Environmental and Energy Services also serves as a liaison to the Boston Water and Sewer Commission, and as a Board member of the Massachusetts Water Resources Authority, the Boston Groundwater Trust and the Boston Harbor Islands Partnership.

Chief of Housing and Neighborhood Development

Evelyn Friedman was appointed Chief of Housing in February 2008. Prior to her appointment, Ms. Friedman served for seventeen years as the Executive Director of Nuestra Comunidad Development Corporation of Roxbury. In her capacity as Chief of Housing, Ms. Friedman is the Director of the Department of Neighborhood Development and is responsible for overseeing the Rental Housing Resource Center ("RHRC"). The Department of Neighborhood Development is responsible for business development, homeowner/homebuyer programs, housing development, surplus land and building management and disposition, and certain City capital construction projects. The RHRC provides a variety of services to tenants and owners of the City's residential housing stock.

Chief of Public Housing

Sandra B. Henriquez was appointed Chief of Public Housing in December 1996, when Mayor Menino elevated the position of Administrator of the Boston Housing Authority (the "BHA") to the level of a cabinet post. Prior to her appointment as Administrator of the BHA in April 1996, Ms. Henriquez was a principal of Maloney Properties, Inc., a private management firm specializing in the delivery of property management services to resident-controlled and non-profit sponsored housing. The Boston Housing Authority is a public body established under the laws of the Commonwealth of Massachusetts. It is responsible for the financing, construction, operation, and management of public housing for low-income families and individuals.

Corporation Counsel

William F. Sinnott was appointed Corporation Counsel in March 2006. Prior to his appointment Mr. Sinnott served as an Assistant U.S. Attorney, and had been assigned to the District of Massachusetts in Boston. The Corporation Counsel has supervisory authority over all City attorneys and legal affairs. The Law Department provides a comprehensive array of legal services including formal and informal opinions and advice to the Mayor, the City Council, the Boston School Committee and other officials in matters relating to their official duties, and also represents all of the foregoing entities and individuals in litigation of all types. In addition, the Law Department reviews all City contracts, pursues claims on behalf of the City through affirmative litigation, and pursues foreclosure proceedings on tax delinquent property.

Chief of Public Works and Transportation

Dennis Royer was appointed Chief of Public Works and Transportation in July 2006. Prior to his appointment Mr. Royer served as Deputy Manager of Operations for the Public Works Department of Denver, Colorado. The Public Works and Transportation Cabinet includes the Public Works Department, the Transportation Department, Central Fleet Maintenance and Snow Removal. For additional information concerning the Public Works Department, see "The City—Principal Government Services—Public Works," below.

Principal Government Services

The following table shows the distribution of the City's fiscal 2009 appropriations by primary government functions and departments.

Purposes of City Appropriations—Fiscal 2009 ⁽¹⁾
(Budgetary Accounting Basis) ⁽²⁾
(\$ in thousands)

	<u>Amount</u>	<u>Percent of Total Appropriations</u>
General Government	\$ 115,064	4.8%
Public Safety	500,033	20.7
Public Works	104,943	4.3
Property and Development	30,121	1.2
Parks and Recreation	17,446	0.7
Library	31,230	1.3
Human Services.....	29,524	1.2
Schools	833,105	34.4
Boston Public Health Commission.....	69,446	2.9
Judgments and Claims	3,500	0.1
Employee Benefits	195,128	8.1
Current Period Retirement Contributions.....	217,430	9.0
Debt Requirements	125,694	5.2
State and District Assessments	<u>147,459</u>	<u>6.1</u>
Total.....	<u>\$2,420,123</u>	<u>100.0%</u>

(1) Represents the fiscal 2009 Budget amended by Mayoral Reallocations and a supplemental appropriation passed by the City Council on February 25, 2009.

(2) See "Financial Operations – Operating Budgets" for a definition of budgetary accounting basis.

Source: City of Boston Auditing Department and Office of Budget Management.

A description of certain City principal governmental services follows:

Schools

The City's School Department provides both basic education and college preparatory curricula as well as specialized vocational educational programs. The school system enrolled 56,524 students for the 2007-2008 school year, a decrease of approximately 239 students from the preceding school year.

Pursuant to Chapter 108 of the Acts of 1992, the City's public schools are under the control of a School Committee, which consists of seven members appointed by the Mayor. Members of the School Committee have staggered four-year terms. In addition to appointing the Superintendent of Schools, the Boston School Committee approves the School Department budget for submission to the Mayor, and by and through the Superintendent, determines educational policy, makes all contracts for the purchase of materials for the operations of the schools, and maintains and operates school properties. The Superintendent of Schools has exclusive authority to make appointments and promotions for all teachers and other School Department personnel except for the positions of Community Superintendent, Chairman, Secretary, or Treasurer of the School Committee, School Committee Administrative Assistants, and Special Assistant Corporation Counsels. The School Committee appoints these excepted positions.

Public Safety

The Public Safety Cabinet is continuing to improve citywide service-delivery through consolidated and shared resources to provide more effective and efficient public safety services to Boston's communities.

The Police Department maintains eleven neighborhood police stations and one headquarters building. It also maintains ten support programs, consisting of the Police Academy, Horse Stables, Firearms Training

Range, Harbor Patrol Unit, Fleet Management Unit, Telecommunications Unit, Evidence and Property Management Facility, Special Operations Division, Stress Support Unit and Sexual Assault Unit.

The Fire Department maintains 40 facilities consisting of 34 neighborhood fire stations, one marine unit, a training academy, a fire prevention division, a fire alarm division, headquarters/maintenance division/fire investigation building, and a high-pressure pumping station. In 2008, the Fire Department completed construction of a \$3.8 million training simulator and restarted its “back-to-basics” training at the Fire Training Academy. The Fire Department also purchased five new ladder trucks and three new fire engines at a cost of \$4.1 million.

The Mayor’s Office of Emergency Preparedness coordinates and directs Boston’s interdepartmental and multi-jurisdictional homeland security activities by advising the Mayor on issues and obtaining and managing outside funding. See “Director of the Office of Emergency Preparedness,” above.

Public Health

The Boston Public Health Commission, successor to the City’s Department of Health and Hospitals, is a body politic and corporate separate from the City created in 1996 when the operations of the City’s former acute-care hospital, Boston City Hospital, were consolidated with the operations of Boston University Medical Center Hospital under the control of the Boston Medical Center Corporation (“BMCC”), a private, Massachusetts non-profit corporation. The Commission is governed by a seven-member board, six of whom are appointed by the Mayor, subject to confirmation by the City Council, and one of whom, as the chief executive officer of BMCC, serves *ex-officio*. The Commission functions as the City’s board of health and operates a wide range of public health programs throughout the City funded from public and private grants and City appropriations. The Commission is a discretely presented component unit for GAAP reporting purposes in the City’s annual audited financial statements. See “City Indebtedness—Debt of Agencies Related to the City—Boston Public Health Commission.”

Public Works

The Public Works Department constructs and maintains highways, sidewalks, street lighting and bridges, and oversees snow removal, street cleaning, refuse removal and recycling. The City advertised, awarded, and executed five contracts for the provision of sanitation, solid waste collection and disposal services, including recycling, for a four-year term beginning July 1, 2005 and ending June 30, 2009. The cost of these services equaled approximately \$41.1 million in fiscal 2008. The estimated cost of these contracts in fiscal 2009 equals approximately \$43.6 million. The Boston Water and Sewer Commission (“BWSC”), an independent agency, is responsible for the operation and maintenance of the City’s water, and sewer, and storm water drainage systems, the construction of improvements to those systems, and the collection of user charges for its services. See “City Indebtedness—Debt of Agencies Related to the City—Boston Water and Sewer Commission” below.

Other Services

The Boston Public Library Department operates a central library, 26 neighborhood branch libraries, a downtown business library, and two service buildings. The Parks and Recreation Department manages approximately 2,200 acres of active, passive and historic parkland. The 2,200 acres of land include 272 parks, playgrounds, squares, malls, plazas, and other miscellaneous sites; sixteen historic and three active cemeteries; one greenhouse facility; and approximately 38,000 street trees.

Office of the Suffolk County Sheriff

While existing state law provides that the Mayor and City Council serve as the Commissioners of Suffolk County, which includes the Cities of Boston, Chelsea and Revere and the Town of Winthrop, all of the functions and costs of county government, including the county courts and registry of deeds, have been assumed by the Commonwealth, other than the operations of the Office of the Suffolk County Sheriff. The Suffolk County Sheriff is an elected position under state law who administers the county jail and houses of correction independent of the City. Legislation is currently pending in the state legislature to abolish the government of Suffolk County.

Under legislation enacted in 1985 and 1991, the Commonwealth assumed responsibility for all of the capital costs of the county jail and houses of correction. Currently, the operating budget for the Office of the Suffolk County Sheriff is prepared under the supervision of the Sheriff, without submission to or approval by the Mayor or the City Council, but subject to approval by the Commonwealth’s County Government Finance Review Board, consisting of the Secretary of Administration and Finance, the Commissioner of Revenue and the Secretary of Public Safety. Since 1992, the Commonwealth has also assumed responsibility for varying percentages (96% in fiscal 2009) of the state-approved operating budget

for the Sheriff's Office. The City's fiscal 2009 budget includes an appropriation for the remaining 4% of the state-approved budget.

City Employees

The following table shows the number of full-time equivalent City employees by department as of January 1 of each of the indicated years.

Full-Time Equivalent City Employees By Department ⁽¹⁾			
	2007	2008	2009
<i>City Funded:</i>			
Public Safety ⁽²⁾	4,554	4,737	4,685
Public Works.....	418	404	388
Other City Departments ⁽³⁾	2,747	2,771	2,841
Boston Public Health Commission ⁽⁴⁾	750	752	820
Subtotal	8,469	8,664	8,734
Schools ⁽⁵⁾	8,300	8,476	8,572
Total City Funded	16,769	17,140	17,306
<i>Grant Funded:</i>			
Schools	963	912	755
All Others.....	1,429	1,391	1,433
Total.....	19,161	19,443	19,494

(1) All data are as of January 1 in the year stated. The methodology used in compiling these data was established jointly by the City and the Boston Municipal Research Bureau.

(2) Public Safety includes both the Police Department and the Fire Department.

(3) Includes State-Boston Retirement System employees.

(4) Boston Public Health Commission employees are funded by the City, but are not employees of the City.

(5) Prior years restated to include part-time school custodians. Such part-time positions are equal to one-half of a full-time equivalent employee.

Source: City of Boston Office of Budget Management.

Employee Relations

Under Massachusetts General Laws Chapter 150E, most municipal employees in the Commonwealth enjoy the right to join labor unions and bargain collectively over wages and other terms and conditions of employment. The Office of Labor Relations represents the Mayor and the City in all collective bargaining matters with all unions of City employees except School Department employee unions. The School Department's labor relations personnel similarly represent the School Committee and consult with the Office of Labor Relations regarding contract negotiations and other general labor matters. Additionally, the Office of Labor Relations has actively assisted the Boston Public Health Commission in collective bargaining negotiations with its eleven bargaining units and regularly interfaces with the Boston Public Health Commission on labor and employment matters. The Office of Labor Relations provides no such assistance to the Office of the Suffolk County Sheriff, which itself manages relations with its employees.

Nearly all of the City's non-school department employees are organized into bargaining units represented by various unions. Most of these unions are affiliated with the AFL-CIO. Three large unions, the American Federation of State, County, and Municipal Employees ("AFSCME") Council 93 (laborer employees), the Service Employees International Union ("SEIU") Local 285 (clerical employees), and the Salaried Employees of North America ("SENA") Local 9158 (middle manager employees) represent the majority of City's non-public safety employees.

Police officers are represented by four distinct unions, the Boston Police Patrolmen's Association ("BPPA"), the Boston Police Superior Officers Federation ("Federation"), the Boston Police Detectives Benevolent Society ("Detectives") and the Boston Police Detectives Benevolent Society, Superior Officers Unit ("Detective Superiors"). Firefighters and Fire Chiefs are divided into two bargaining units represented by a single union: the International Association of Firefighters ("IAFF") Local 718.

Boston teachers, teacher aides, school nurses, and substitutes are in a collective bargaining unit represented by the Boston Teachers Union ("BTU"), an affiliate of the AFL-CIO.

The table below represents a summary of the bargaining units representing City employees, the number of City employees represented by each bargaining unit, and the status of the City's contract with each bargaining unit.

Collective Bargaining Units (City and Schools)

<u>Union</u>	<u>Department</u>	<u>Number of Employees Represented</u> ⁽¹⁾	<u>Contract Expiration Date</u>
Boston Patrolmen's Association	Police	1,558	6/30/10
Boston Police Superior Officers	Police	247	6/30/10
Boston Police Detectives Benevolent Society	Police	281	6/30/10
Superior Detective Benevolent Society	Police	132	6/30/10
Police Cadet Association	Police	44	6/30/10
School Traffic Supervisors Assoc.	Police	212	8/31/10
International Association of Firefighters, Local 718	Fire	1,540	6/30/06
Municipal Police Patrolmen's Association	Property & Construction Mgmt	53	6/30/10
Municipal Police Superior Officers Association	Property & Construction Mgmt	7	6/30/10
SEIU, Local 888	Citywide	1,182	9/30/10
SENA, Locals 9158 and 9158E	Citywide	673	9/30/10
AFSCME C93 (Citywide & various locals)	Citywide	1,240	6/30/10
AFSCME Local 1526	Library	281	6/30/10
Professional Staff Association (BPL)	Library	146	9/30/10
Graphic Communications, Local 600	Graphic Arts	8	6/30/10
Other Graphic Arts Unions	Graphic Arts and Police	16	9/30/10
OPEIU AFL-CIO L16 (Housing Inspectors)	Inspectional Services	25	6/30/10
Other City Unions	Inspectional Services and Property & Construction Mgmt	16	6/30/10
Boston Teachers Union	School	8,062	8/31/10
BASAS (School Administrators & Supervisors)	School	290	8/31/10
Administrative Guild	School	388	8/31/10
Planning & Engineering	School	38	8/31/10
Boston School Police	School	62	8/31/10
School Police Superior Officers Assoc.	School	24	6/30/10
School Custodians Local 1952, Painters & Allied	School	435	8/31/08
Trades District Council #35			
Plant Administrators Association	School	14	8/31/08
School Bus Monitors USWA Local 8751	School	401	6/30/10
Lunch Hour Monitors Association	School	357	8/31/10
AFSCME C93, Local 230 Cafeteria Workers	School	377	8/31/10
AFSCME C93, Storekeepers & Deliverymen	School	<u>15</u>	8/31/10
		18,124	

(1) Number of members (not Full-Time Equivalents) as of January 1, 2009.

Source: Office of Budget Management, Boston Administrative Systems/Human Resources Management System (BAIS/HRMS) and Boston School Department.

Close to ninety percent of the collective bargaining agreements between the City and the unions have been successfully re-negotiated. The new contracts will remain in effect until various dates in 2010. The Boston Teacher's Union and the four public safety unions that have concluded negotiations agreed to roughly a 14% wage package over a four year period. The City was able to secure meaningful language reforms with each of these unions in exchange for this wage pattern. All of the civilian contracts that the City has settled included roughly an 11% wage increase over a four year period. Each of the contracts that have been settled has included a modest increase in the employee contribution to HMO premiums. Prior to the new contract period, employees paid 10% of the cost of an HMO premium; by the end of the new contract period the employee contribution will be 15%. The City continues to negotiate with those unions with whom it has not completed negotiations. In the case of the firefighters union, the parties have begun an arbitration process. The City does not anticipate any disruption in municipal services.

FINANCIAL OPERATIONS

Budget Process

Program-Based Budgeting

The City of Boston maintains a program-based budgeting system to track expenditures and service levels by major functions or "programs." This budgeting system complies with the standards of the

Government Finance Officers Association, which has consistently recognized the City's efforts with its Distinguished Budget Presentation Award.

The City's fiscal year begins July 1 and ends on June 30 of the following calendar year. Pursuant to state law, the Mayor must submit an operating budget to the City Council by the second Wednesday in April for its review and approval. Proposed appropriations for all departments and operations of the City (except for the public schools and public health services) are prepared under the direction of the Mayor in the Office of Budget Management ("OBM"). The Superintendent of Schools must submit a budget to the School Committee by the first Wednesday in February. The School Committee must approve a budget by the fourth Wednesday in March and forward this budget to the Mayor who may approve or reduce the total recommended budget. The Mayor then submits the school budget to the City Council for appropriation by the second Wednesday in May. In practice, the School Department appropriation request has been presented to the City Council in coordination with the Mayor's operating budget request in April. The Boston Public Health Commission must submit a revenue and expenditure budget for public health services to the Mayor by the second Wednesday in March. If the proposed budget provides for expenditures in excess of the Commission's projected revenues from non-City sources, the Mayor may either approve or reject the budget. If the Mayor accepts the budget, the amount required to fund the revenue deficiency (the "net cost of public health services") is included in the annual budget for the City submitted to the City Council in April of each year. The Commission must adopt its public health services budget by the second Wednesday in June.

The City Council may reduce or reject any item in the Mayor's budget but may not, except upon the recommendation of the Mayor, increase or add an item. After approval of the budget and until the property tax rate is officially determined in mid-December, the Mayor may submit to the City Council such supplementary appropriation requests as are deemed necessary, including supplemental amounts for the School Department and the Boston Public Health Commission. The Mayor may also submit to the City Council supplementary appropriation requests subsequent to the setting of the property tax rate. Under certain circumstances, the Mayor may, by executive order, require expenditures to be limited to an amount less than the appropriated level.

In the event that the City enters a fiscal year without an approved operating budget, the City continues departmental operations on a "one-twelfth" budget, as provided in the City Charter. Under the one-twelfth budget process, (a) payrolls for regular employees cannot exceed the average monthly expenditure of the last three months of the preceding fiscal year, (b) total liabilities incurred in any month cannot exceed amounts spent for similar purposes during any one month of the preceding fiscal year, and (c) monthly expenditures for new departments cannot exceed one-twelfth of their current fiscal year's estimated costs.

The City, Boston Public Health Commission and School Department operating budgets for fiscal 2009 were approved by the City Council on June 25, 2008. See "Financial Operations—Fiscal 2009 Budget." The Mayor also initiates loan orders for City Council consideration, based on an annual update of the Five-Year Capital Plan. There is no statutory time frame for requesting or approving such orders. New authorizations related to the fiscal 2009 portion of the Five-Year Capital Plan were submitted to the City Council on April 9, 2008 and were approved by the City Council on June 18, 2008.

By law, the City must establish its property tax rate each year so that the resulting property tax levy complies with the requirements of Proposition 2½. (For a discussion of Proposition 2½, see "City Revenues—Property Taxes—Proposition 2½.") The amount raised in the tax levy equals the sum of (a) the aggregate of all amounts appropriated, granted or lawfully expended since the last annual tax levy and not provided for, plus (b) all debt and interest charges on general obligation debt of the City maturing during the fiscal year and not otherwise provided for, plus (c) all amounts necessary to satisfy final judgments, plus (d) provision for certain prior years' deficits, less (e) the aggregate of all non-property tax revenues projected to be received in the City's General Fund in amounts certified or approved by the Commonwealth for tax rate purposes. In general, the City is required to raise in the tax levy a deficit incurred on a statutory accounting basis in the prior year's operating budget, or a deficit incurred in the property tax abatement reserves.

Capital Budgeting

The Capital Budgeting Program ("CBP"), a program of OBM, is responsible for managing the capital budget of the City. CBP's mission is to evaluate the condition of the City's capital assets, forecast the timing and financial requirements of new construction and rehabilitation, and recommend allocation of current and future resources to meet the City's infrastructure and capital requirements. Resource availability and capital needs are assessed frequently and appropriate planning responses are taken.

CBP evaluates and refines the relationship between the City's capital needs and resources as the City moves through each fiscal year. This process is documented by an annually updated five-year capital plan. In April 2008, Mayor Menino released the fiscal 2009-2013 capital plan, incorporated with the operating budget. In addition to its planning functions, CBP also plays an ongoing project oversight role during the implementation phase of its capital projects. CBP reviews and approves all capital contracts and monitors project costs and schedules to ensure the adequacy of available funding sources.

Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2005-2009

The table below shows the City's legally adopted General Fund budget for fiscal 2009, together with budgetary actual results for fiscal 2005 through 2008. In accordance with state law and regulations, the City's legally adopted General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

**Fiscal 2009 Budget Compared to
Fiscal 2005, Fiscal 2006, Fiscal 2007 and Fiscal 2008 Actual Results
General Fund—Budgetary Basis**

	(\$ in millions)*				
	Fiscal 2005 Actual Results	Fiscal 2006 Actual Results	Fiscal 2007 Actual Results	Fiscal 2008 Actual Results	Fiscal 2009 Budget ⁽¹⁾
Revenues:					
Recurring Revenue					
Property Taxes	\$ 1,150.6	\$ 1,208.2	\$ 1,270.8	\$ 1,334.6	\$ 1,400.0
Overlay Reserve ⁽²⁾	(44.3)	(40.8)	(46.6)	(39.1)	(35.4)
Excises	82.5	89.7	80.2	92.3	91.5
Fines	65.6	68.0	67.4	67.7	75.4
Interest on Investments	17.8	30.0	43.5	39.5	18.5
Payments in Lieu of Taxes	23.4	32.1	32.4	31.4	32.5
Urban Redevelopment Chapter 121A	54.9	65.1	63.9	64.5	64.1
Misc. Department Revenue	43.1	44.5	53.6	59.5	59.2
Licenses and Permits	33.8	38.8	41.4	47.6	40.6
Penalties & Interest	9.8	9.2	8.7	8.5	8.5
Available Funds	5.5	3.1	3.2	12.1	14.2
State Aid	461.1	464.6	483.0	493.3	504.6
Teachers' Pension Reimbursement	76.5	85.2	93.3	105.4	105.4
Total Recurring Revenue	\$ 1,980.4	\$ 2,097.6	\$ 2,194.7	\$ 2,317.4	\$ 2,379.1
Non-Recurring Revenue ⁽³⁾	0.0	6.7	7.5	25.7	41.0
Total Revenues	\$ 1,980.4	\$ 2,104.3	\$ 2,202.2	\$ 2,343.1	\$ 2,420.1
Expenditures:					
Departmental Expenditures					
City Departments	\$ 849.4	\$ 891.9	\$ 936.7	\$ 979.2	\$ 988.6
Boston Public Health Commission	60.6	61.3	63.8	68.2	69.4
School Department	680.2	717.8	747.5	795.5	833.1
Collective Bargaining Reserve	-	-	10.0	11.8	17.1
OPEB Stabilization Fund	-	-	-	20.0	25.0
Total Department Expenditures	\$ 1,590.1	\$ 1,671.0	\$ 1,758.0	\$ 1,874.7	\$ 1,933.2
Fixed Costs					
Pensions ⁽⁴⁾	\$ 146.6	\$ 186.3	\$ 192.9	\$ 202.9	\$ 213.2
Debt Service ⁽⁵⁾	118.4	112.8	109.6	115.8	126.2
State Assessments	111.7	114.3	119.9	128.3	143.1
Suffolk County Sheriff Reserve	4.2	4.5	4.4	4.5	4.3
Reserve	1.1	1.5	2.2	1.1	0.0
Total Fixed Costs	\$ 381.9	\$ 419.4	\$ 429.0	\$ 452.6	\$ 486.9
Total Recurring Expenditures	\$ 1,972.1	\$ 2,090.4	\$ 2,187.0	\$ 2,327.3	\$ 2,420.1
Excess of Revenues Over Expenditures	\$ 8.3	\$ 13.9	\$ 15.2	\$ 15.8	\$ 0.0

* Columns may not add due to rounding.

- (1) Represents the budget at the time of the approval of the tax rate on December 15, 2008 plus any supplemental appropriations or mayoral reallocations.
- (2) If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In fiscal 2009, the City has reserved 2.5% of the net levy for abatements.
- (3) Non-recurring revenue in fiscal 2008 and 2009 include a portion of the proceeds from the Surplus Property Fund (\$5.7 million and \$6.0 million). Non-recurring revenue in 2006, 2007, 2008 and 2009 include a portion of the proceeds from Budgetary Fund Balance (\$6.7 million, \$7.5 million, \$20.0 million, and \$35 million, respectively).
- (4) Excludes non-contributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$4.9 million, \$4.6 million, \$4.6 million, \$4.1 million, and \$4.2 million, respectively in fiscal 2005, 2006, 2007, 2008 and 2009.
- (5) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 2004-2008." See "City Indebtedness-Debt Service Requirements."

Source: City of Boston Office of Budget Management and Auditing Department.

Fiscal 2005-2008 Actual Results

Between fiscal 2005 and 2008, City revenues recovered from their 2001-2002 recession-driven lows and the property tax continued to produce steady revenue growth. State aid to the City did not return to levels attained prior to the last recession and state aid net of municipal charges or "assessments" continued to decline. In addition, the City continued to experience steep increases in employee health insurance and pension costs (For discussion of aid from the Commonwealth, see "City Revenues—State Aid").

In spite of these cost pressures and reduced in net state aid, the City was able to maintain a balanced budget and produce operating surpluses in each year. In addition, in fiscal 2008 the City made its first ever

contribution to a stabilization fund designated to pay for Other Post Employment Benefits (OPEB) of City retirees.

Fiscal 2009 Budget

The following is a summary of the City's fiscal 2009 budget on a budgetary accounting basis. The figures cited are from the fiscal 2009 tax rate budget at the time of certification of both the aggregate amount of and the rates of tax for the City's fiscal 2009 property tax levy by the Massachusetts Department of Revenue, plus supplemental appropriations. This certification was completed on December 15, 2008.

Expenditures

In fiscal 2009, the City's budgeted expenditures total \$2.42 billion including direct expenditures for departmental services and fixed expenses, representing an increase of \$92.9 million or 4.0% from fiscal 2008 actual expenditures. Budgeted fiscal 2009 departmental expenditures compare with actual fiscal 2008 expenditures as follows: City Departments increased \$9.5 million or 1.0%; the Public Health Commission increased \$1.3 million or 1.8%; and the School Department increased \$37.6 million or 4.7%; Collective Bargaining Reserve increased \$5.2 million or 44.2%; and the appropriation to the OPEB Stabilization Fund increased \$5.0 million or 25.0%. Budgeted fixed expenses for fiscal 2009 compare with fiscal 2008 actual expenses as follows: Pensions increased \$10.3 million or 5.1%; Debt Service increased \$10.4 million or 9.0%; State Assessments increased \$14.8 million or 11.6%; and City costs for the Office of the Suffolk County Sheriff decreased \$0.2 million or 3.8%. The appropriation for the Suffolk County Sheriff is treated as a mandatory expenditure included in Fixed Costs because it is required by, and calculated in accordance with, state law. See "The City—Principal Government Services—Office of the Suffolk County Sheriff."

Factors contributing to the cost increases in City Departments are salary increases scheduled for fiscal 2009 and inflationary increases in health insurance and non-personnel costs such as utilities and trash removal. The increases in the School Department and the Public Health Commission are largely reflective of salary and health insurance increases. The increase in pension expenses is mandated by the City's pension funding schedule as approved by the state actuary and is a legal obligation of the City. The City's current pension schedule fully funds the system by the end of fiscal 2023, five years earlier than required by law. State Assessments are also mandatory; the amounts are determined by the Commonwealth. All but a small portion of the increase in State Assessments is the result of the increase in the charge to the City for Massachusetts Bay Transportation Authority (MBTA) service and for Charter School Tuition.

Revenues

Budgeted revenues for fiscal 2009 equal \$2.42 billion, an increase of \$77.0 million or 3.3% from fiscal 2008 actual revenues. Selected fiscal 2009 budgeted revenues compare with fiscal 2008 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$65.4 million or 4.9%; Excises decreased \$0.8 million or 0.8%; Interest on Investments decreased \$21.0 million or 53.2%; Licenses and Permits decreased \$7.0 million or 14.7%; Available Funds from parking meter and cemetery fees increased \$2.0 million or 16.9%; State Aid increased \$11.3 million or 2.3%; and Non-Recurring Revenue increased by \$15.3 million or 59.7%.

The Property Tax, the City's largest source of revenue, has become increasingly important to the City's recent revenue growth given the minimal growth of the City's second largest source of revenue: State Aid. Property tax revenues are expected to increase \$65.4 million or 4.9% in fiscal 2009 after having increased by over \$56 million and more than 5.0% in each fiscal year between 2005 and 2008. The near-term outlook for the City's property tax levy is one of continued stable growth.

The minor decrease in Excises, despite a substantial drop in motor vehicle excise receipts, is the result of an expected increase in aircraft fuel excise receipts. The increase in fiscal 2009 aircraft fuel excise receipts is due to late remittance by the Commonwealth of fourth quarter fiscal 2008 receipts, which resulted in delivery of that payment after the commencement of fiscal 2009. Four quarterly payments of aircraft fuel excises were budgeted for fiscal 2009. (See "City Revenues—Excise Revenues.") The decrease in Interest on Investment is based on action by the Federal Reserve to reduce its target federal funds rate. The decrease in Licenses & Permits is due to expected lower building permit activity associated with a slow real estate market. The increase in Available Funds is due to projected increased Parking Meter receipts. The increase in State Aid is due to increases in school aid and related reimbursements.

The increase in Non-Recurring Revenue is largely due to an additional \$5.0 million in Budgetary Fund Balance for the OPEB Stabilization Fund (for a discussion of OPEB, see "Employee Benefits – Other Post Employment Benefits") and \$10.0 million in support of the Boston Public Schools budget. In addition, \$6.0 million in Surplus Property funds will be used for operations. Budgetary Fund Balance is available for

appropriation after certification of its value by the Massachusetts Department of Revenue. Fiscal 2009 becomes the fifth year of use of this reserve since fiscal 1992.

Since certification of the tax rate on December 15, 2008, the City has received notification of emergency reductions in state aid revenue in the current fiscal year 2009. These reductions were made by the Governor through authority granted by the Legislature. The City's reduction, to be incurred in equal parts over the last two quarterly state aid distributions in fiscal 2009, will total \$22.9 million. The City expects to absorb this reduction through a combination of surpluses in other revenues, appropriation surpluses resulting from cost saving measures put in place prior to the announcement of these reductions, and an appropriation from reserves.

Financial Statements

The City engages independent certified public accountants to audit and report on its financial statements in accordance with auditing standards generally accepted in the United States of America. An external Audit Committee, appointed by the Mayor, monitors the progress of the annual audit, reviews the recommendations of the firm and reports the Committee's activities and recommendations to the Mayor and the City Council.

The City's audited financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, ("GAAP"). The accounts of the City are organized on the basis of funds. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, net assets/fund balance, revenues and expenditures/expenses. For a discussion of the significant accounting policies employed in preparing the City's fiscal 2008 audited financial statements, see Note 2 of such audited financial statements, which are attached hereto as Exhibit I. The City's fiscal 2008 financial statements received an unqualified opinion.

GAAP accounting differs from the "statutory" accounting or "budgetary" accounting basis prescribed by the Bureau of Accounts of the Commonwealth, for the annual budget and property tax certification process. The major differences are explained in Note 4 of the fiscal 2008 audited financial statements, attached hereto as Exhibit I.

Attached hereto as Exhibit II are Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Equity for the fiscal years ended June 30, 2008, 2007, 2006, 2005 and 2004, which have been prepared by the City's Auditing Department based on information taken from the City's audited financial statements for those fiscal years.

Summary and Comparison of Operating Results (GAAP Basis)—Fiscal 2004-2008

The following table is a summary of the City's General Fund operating results as derived from the City's audited financial statements for fiscal years 2004 through 2008, prepared by the City and audited by KPMG LLP, an independent certified public accounting firm, in accordance with the GAAP basis of accounting.

**Summary of Statements of Revenues, Expenditures, Other Financing Sources
and Changes in Fund Equity Fiscal Years 2004-2008 (GAAP Basis)**
(\$ in millions)*

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Total revenues	\$1,824.2	\$1,912.7	\$2,108.3	\$2,116.3	\$2,213.2
Total expenditures	<u>1,758.8</u>	<u>1,895.4</u>	<u>1,987.3</u>	<u>2,068.8</u>	<u>2,184.0</u>
Excess of revenues over expenditures	65.4	17.3	120.9	47.5	29.2
Total other financing (uses) sources	<u>16.5</u>	<u>22.5</u>	<u>(72.6)</u>	<u>23.1</u>	<u>40.8</u>
Excess of revenues and other financing sources over expenditures and other financing uses	<u>81.9</u>	<u>39.8</u>	<u>48.4</u>	<u>70.7</u>	<u>70.0</u>
Fund balance, beginning of year as previously reported	<u>491.4</u>	<u>573.3</u>	<u>613.0</u>	<u>661.4</u>	<u>732.0</u>
Fund balance, end of year ⁽¹⁾	<u>\$ 573.3</u>	<u>\$ 613.0</u>	<u>\$ 661.4</u>	<u>\$ 732.0</u>	<u>\$ 802.0</u>

* Columns may not add due to rounding.

(1) The undesignated fund balances for the General Fund for fiscal 2004, 2005, 2006, 2007 and 2008 were \$377.1 million, \$415.2 million, \$438.7 million, \$495.3 million and \$553.1 million, respectively.

Source: City of Boston Auditing Department.

The following is a summary analysis of the City's financial operations on a GAAP basis over the period fiscal 2006 through fiscal 2008. The figures appearing in this section for the period are derived from the annual financial statements. The analyses of revenues and expenditures in the text that follows are stated using data derived from the audited financial statements. For an explanation of the differences between the GAAP basis and Budgetary basis of accounting, see the audited financial statements at Exhibit I, Note No. 4, "Budgetary Data."

The City's major recurring revenue sources during this period were real and personal property taxes, state aid, payments in lieu of taxes ("PILOTs"), local excises and departmental revenues, and other intergovernmental sources. The principal expenditures were for public safety, debt requirements, retirement costs, and the School Department. Reference is made to Exhibits I and II attached hereto for a detailed presentation of the City's financial operations.

Fiscal 2006

Revenues showed slight increases in fiscal year 2006 from fiscal year 2005. The most notable occurred in property taxes, excise taxes, payments in lieu of taxes, investment income and departmental and other revenues. Property taxes increased \$52.1 million, or 4.6%, reflecting continuing growth in the tax base, as well as a strong real estate market. Excise taxes increased \$13.4 million, or 14.3%, reflected by an increase in the number of motor vehicles excise taxes billed. Payments in lieu of taxes increased by \$18.4 million or 43.5%. This change is due to an increase in the number of miscellaneous properties added to this revenue base and a large one-time settlement payment made in fiscal 2006 for multiple fiscal years' back payments. An increase in investment income (\$14.4 million) was the result of still stronger market performance and rising interest rates, yielding positive returns on the City's cash balances. Departmental and other revenues decreased due solely to one-time revenue received in fiscal 2005. Licenses and Permits reported an increase in fees of \$6.9 million. This is primarily due to a sizable increase in Building Permits of \$3.3 million and a change in GAAP accruals that comprised the balance of the increases in this category as of June 30, 2006. Intergovernmental (State Aid) revenues increased by \$96.5 million or 21.0%, due to revenues received from the Massachusetts School Building Authority for three major school projects. The overall growth in revenues represents a \$195.6 million increase or 10.2% higher than fiscal 2005.

Overall, fiscal year 2006 expenditures increased over the previous year by 4.9% or \$92.0 million. The most notable increases occurred in Property and Development of \$3.5 million or 11.7% over fiscal 2005 expenditures, Schools by \$46.7 million or 6.9%, Judgments and Claims by \$5.0 million or 75.1%, due to a one-time large settlement of \$5.0 million, which was accrued for fiscal 2006, Retirement Costs by \$37.4 million or 63.0%, Other Employee Benefits by \$15.2 million or 10.6% over fiscal year 2005 costs. These increases are attributable to an expanding retirement base and increases in premiums by the Health Insurance providers. Solid financial controls over other expenditure categories allowed for the overall percentage of increase in expenditures to remain moderate.

The General Fund's equity balance as of June 30, 2006 was \$661.4 million, as compared to \$613.0 million in fiscal 2005. The increase of \$48.4 million or 7.9% is primarily due to a continued increase in Property and Excise Taxes. Please refer to the statements of General Fund activity in the Comparative

Balance Sheets and Statements of Revenues and Expenditures (Exhibit II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Fiscal 2007

During fiscal year 2007, the City's revenues increased by 0.4% from fiscal year 2006. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes totaling \$1.41 billion (66.9% of total revenue). Property taxes increased \$68.5 million, an increase of 5.8% from fiscal 2006. Departmental and other increased by \$13.7 million, representing a 26.3% change from fiscal 2006. The main factors were: an increase in municipal Medicaid reimbursement of \$4.9 million, an increase in fringe retirement reimbursement from grants of \$4.6 million and an increase in street cut permits and fees of \$2.4 million. Investment income totaled \$43.1 million, a 33.1% increase from fiscal 2006. The primary factor for the increases in investment income was higher investment rates.

The increase in revenues allowed for an increase in expense categories. The City's expenses covered a range of services. The largest expenses were for schools (\$743.8 million), public safety (\$477.4 million), other employee benefits (\$175.9 million), state and district assessments (\$124.2 million), debt service (\$113.2 million), public works (\$97.9 million), and retirement costs (\$92.9 million). Public safety realized a \$30.6 million increase. The driving force behind the increased expenses for schools and public safety were increases in salaries. Even though public works represented a rather large expense, this category realized a decrease primarily due to less spending on snow removal. State and district assessments realized a nearly 5.0% increase due to increases in Charter School Sending Tuition and MBTA Assessments. Debt service expenses increased due to increases in scheduled principal and interest payments. Retirement costs expenses increased due to an increase in the City's actuarially required contribution.

The General Fund's equity balance as of June 30, 2007 was \$732.0 million, as compared to \$661.4 million in fiscal 2006. The increase of \$70.6 million or 10.7% is primarily due to a continued increase in Property and Excise Taxes. Please refer to the statements of General Fund activity in the Comparative Balance Sheets and Statements of Revenues and Expenditures (Exhibit II to this Appendix A), and Note 2 in Notes to Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Fiscal 2008

During fiscal year 2008, the City's revenues increased by 4.6% from fiscal year 2007. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes totaling \$1.49 billion (67.3% of total revenue). Property taxes increased \$57.9 million, an increase of 4.6% from the previous year. Departmental and other increased by \$13.4 million, representing a 20.4% change from fiscal 2007. The main factors were: an increase in fringe retirement reimbursement from grants of \$1.1 million, an increase in pension and annuities of \$5.4 million. Licenses and permits totaled \$46.0 million, a 13.0% increase from fiscal 2007. The primary factor was a \$3.9 million increase in building permit revenues.

The increase in revenues allowed for an increase in expense categories. The City's expenses covered a range of services. The largest expenses were for schools (\$782.5 million), public safety (\$509.3 million), other employee benefits (\$190.2 million), state and district assessments (\$132.8 million), debt service (\$115.8 million), public works (\$108.8 million), and retirement costs (\$95.2 million). Schools realized a \$38.7 million (5.2%) increase while public safety realized an expenditure increase of \$31.9 million (6.7%). The driving force behind the increased expenses for schools and public safety were increases in salaries and employer charges. The rise of the cost of health care was the main proponent for other employee benefits increasing by \$14.3 million. Public works represented a \$10.9 million increase primarily due to snow removal costs. State and district assessments realized a nearly 7.0% increase due to increases in Charter School Sending Tuition and MBTA Assessments. Debt service expenses increased due to increases in scheduled principal and interest payments. Retirement costs expenses increased due to an increase in the City's actuarially required contribution.

The General Fund's equity balance as of June 30, 2008 was \$802.0 million, as compared to \$732.0 million in fiscal 2007. The increase of \$70.0 million or 9.6% is primarily due to a continued increase in Property and Excise Taxes. Please refer to the statements of General Fund activity in the Comparative Balance Sheets and Statements of revenues and Expenditures (Exhibit II to this Appendix A), and Note 2 in Notes to the Basic Financial Statements (Exhibit I to this Appendix A) for a more in-depth explanation of these entries and the manner in which they impact the Fund equity balance calculation.

Cash Balances

The following table represents the end-of-month unaudited cash balances for the City's General Fund commencing with fiscal 2006 and ending with the most recent month for which data is available.

The cash balances presented do not necessarily reconcile with revenue and expenditures for similar accounts calculated on a budgetary accounting basis or on a GAAP basis.

General Fund End-of-Month Cash Balances for Fiscal 2006-2009 (\$ in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
July	\$714,211	\$872,949	\$964,125	\$914,382
August	788,747	860,760	931,790	873,859
September	755,123	823,615	906,303	870,116
October	788,120	868,799	950,603	809,804
November	735,438	947,222	867,062	842,027
December	629,052	855,483	786,370	896,395
January	806,564	879,069	876,276	901,785
February	804,065	830,317	827,375	929,254
March	737,684	871,122	858,115	—
April	786,062	873,483	942,479	—
May	872,780	946,108	915,466	—
June	838,120	936,891	924,644	—

Source: City of Boston Treasury Department.

Financial Administration

Pursuant to state law mandates and policy initiatives, the City has established a system of internal management controls. These controls are designed to maximize revenue collections, monitor operating and capital spending, evaluate infrastructure needs, and enhance the City's internal control in business procedures. Major components of the City's system of financial management controls include:

Revenue Collections

The City has implemented a comprehensive accounts receivable management program that coordinates the collection of departmental revenues. The City has afforded taxpayers the ability to remit payment for licenses, permits, fees, and fines with credit and debit cards and has given taxpayers an alternative choice in paying real estate taxes by use of online direct debit. The City secures its statutory lien for delinquent real estate taxes with instruments recorded at the Suffolk County Registry of Deeds ("tax takings"). For more information concerning tax takings and collection of delinquent real estate taxes, see "City Revenues—Property Taxes—Delinquent Taxes and Tax Title."

Debt Management

The City uses a comprehensive, interactive debt capacity model that assists debt management administrators in evaluating the potential impact of debt issues on cash flow, credit and statutory debt capacity.

The Treasury Department manages all City borrowings. The Treasury Department focuses on the timing of borrowings to take advantage of favorable market conditions and manages the City's cash flows to help obviate the need for short-term borrowings for operating purposes. The Treasury Department has established a series of debt management guidelines and has instituted a debt policy that direct the City's approach toward its debt management activities, including rapid debt repayment, the use of a debt capacity model for establishing debt affordability, limitations on the level of variable rate debt the City will employ, maintenance of the relationship between debt and repayment sources, target savings for refundings, and reporting and liaison with the financial community and the rating agencies.

Financial Management

Financial management is supported through the use of the Boston Administrative Information Systems (BAIS). BAIS is an integrated financial and human resources management system that is designed to track and control daily activities and report the financial position of the City. BAIS performs the specialized functions of encumbrance control, budget control, position management, payroll allotment reporting, fund accounting, and capital project and grant management. Real time edits prohibit excessive commitments and overspending, while on-line access to information, including monthly revenue and expenditure reports, allows department managers to evaluate directly the financial status of individual programs and the entire department. The utilization of these systems supports the rigorous monitoring and reporting requirements enforced by the City.

The City of Boston has consistently received unqualified opinions on the audit of its Basic Financial Statements and has been presented with a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association for its Comprehensive Annual Financial Report.

Investment Policy

The City has enacted and annually reviews and updates its investment policy statement that dictates the types of investments made by the City Treasury. The policy also focuses on the appropriate balance of liquidity and the rate of return on investments. Bond proceeds, in conformance with the City's policy, are invested in highly liquid, fully collateralized investments.

Performance Management and Program Evaluation

Boston About Results (BAR) is the City's performance management and evaluation program. At its core, BAR aims to create a sustainable and reliable performance management system which captures the core functions of City departments and citywide strategic goals, assists in the decision-making process, identifies areas of improvement, and effectively communicates performance results to a broad range of stakeholders.

Using performance management as its foundation, BAR encourages organization changes and operational improvements that increase the effectiveness and productivity of City departments. The program does this by providing reliable, objective, and independent information and reports to City managers about department performance and operations.

Risk Management

The City of Boston's Risk Management Program focuses on a planned strategy of self-insurance supported by strong prevention and cost reduction efforts, financial reserves and catastrophic insurance.

The citywide program first focuses on limiting unnecessary asset losses due, for example, to third party legal liability claims, property losses, workplace injuries, employee healthcare and unemployment compensation. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations. Assets and losses are tracked and quantified and areas are targeted for improvement efforts.

The City budgets and funds for the costs described above through the general fund, except for self-insured healthcare costs, which are managed by Blue Cross Blue Shield, and financed through an employee/employer trust fund established in compliance with Section 3A of Chapter 32B of the General Laws.

To protect the City's assets from adverse loss, commercial insurance is purchased strategically for certain exposures. A catastrophic property insurance policy provides \$100 million all risk protection after a \$10 million deductible; boiler and machinery losses are insured up to \$10 million, and 75% of the City's healthcare costs are insured through HMOs.

For unexpected large losses, the City has been continually building a catastrophic risk reserve, the available balance of which equaled \$12.1 million at the end of fiscal 2008.

Energy Management

The Mayor's Energy Management Board is charged with making decisions regarding the City's procurement, use, and conservation of energy as well as the minimization of the impact of fossil fuel consumption on public health. The Energy Management Board is comprised of the City's Director of Administration and Finance and Collector-Treasurer, Chief of Environmental and Energy Services, Chief of Public Property, and Chief of Public Health.

The Energy Management Board commissioned an Integrated Energy Management Plan that is intended to assure progress toward the fulfillment of its mission. The Integrated Energy Management Plan was finalized in fiscal 2006.

Two significant projects identified in the Integrated Energy Management Plan are underway. Energy efficient lighting controls are being installed in Boston City Hall and a similar project at the main branch of the Boston Public Library is in the planning stages.

Since March 2005, the City has independently contracted with third party electricity suppliers to meet all of the City's electricity supply requirements. To date, the supply costs the City has paid to its third party electricity supplier have been less than the default supply costs offered by the City's local electricity distribution company, NSTAR - Boston Edison (BECO).

CITY REVENUES

The principal sources of City revenue available to meet operating expenditures are Property Taxes, State Aid, Excise Revenues, Departmental Revenues, and Federal and State Grants, all of which are described below. Except as specifically noted, all amounts are stated on a budgetary accounting basis. References to fiscal 2009 are unaudited.

Property Taxes

Real and personal property taxes are the largest single source of the City's revenue. The City's gross property tax levy for fiscal 2009 equals \$1.40 billion, or 58.0% of City General Fund revenues for such period. Certain properties are subject to arrangements that suspend the imposition of real property taxes at normal rates in order to encourage development. See "City Revenues—Property Taxes—Revenues from Chapter 121A Properties" below.

As discussed below, Proposition 2½ limits the level of property taxation in the City. In fiscal 2009, the City will again levy taxes below the 2.5% ceiling on the overall effective tax rate. The City is not expected to reach the levy ceiling in the foreseeable future due to previous growth in the real estate market.

Proposition 2½

Proposition 2½ is a statewide tax limitation subject to amendment or repeal by the legislature that imposes two separate limits on the annual tax levy of a city or town.

The primary limitation of Proposition 2½ is that the property tax levy in any city or town in the Commonwealth cannot exceed 2.5% of the full and fair cash valuation of the taxable real estate and

personal property in that city or town (the “2½ ceiling”). The only exception is the temporary exclusion of debt service or capital costs from the levy ceiling restrictions, as described below.

Within the limits of the 2½ ceiling, the Growth Levy Limit is a secondary limitation imposed by Proposition 2½. The Growth Levy Limit prohibits the levy in a fiscal year from exceeding an amount equal to 102.5% of the maximum allowable limit for the preceding year, subject to exceptions for the following: property newly added to the tax rolls and valuation increases other than as a result of a general revaluation (“new growth”); temporary exclusions from the tax levy limitation to pay for capital costs or debt service on indebtedness; and “overrides,” which are permanent increases in the tax levy for general expenditures of the city or town. Exclusions and overrides must be approved by a referendum of the voters of the city or town. The levy is permanently increased by the addition of new growth and overrides, except that any override to fund a stabilization fund will not be taken into account in calculating the maximum levy limit in subsequent fiscal years unless the City Council votes to appropriate such increased amount in such subsequent year to the stabilization fund. The exclusion of debt service by referendum temporarily increases the levy amount and the duration of the specific debt excluded. The Growth Levy Limit may be exceeded by an override in any year by a majority vote of the voters. An increase in the Growth Levy Limit under this procedure, however, does not permit a tax levy in excess of the 2½ ceiling, since the two limitations apply independently. The applicable tax limits may also be reduced in any year by a majority vote of the voters. The City’s gross levy in fiscal 2009 equals \$1.40 billion. In fiscal 2009, the allowable 2.5% increase is \$33.4 million, and “new growth” is \$32.8 million.

In order to mitigate its adverse impact on local government revenues, Proposition 2½ limits the annual rate of increase of aggregate, statewide assessments made upon cities and towns by the Commonwealth and certain of its governmental entities, such as assessments made upon the City and certain other cities and towns for the Massachusetts Bay Transportation Authority (“MBTA”), to 2.5% of the prior year’s assessment. Proposition 2½ also limits the motor vehicle excise tax rate to 2.5%.

The City’s Bond Procedure Act of 1983 mandates assessment of taxes in excess of the Proposition 2½ levy limits to the extent that the debt service on City obligations is not otherwise provided for in the tax levy or from other sources, with no allowance made for any other expenditures of the City. See “City Indebtedness—Classification of City Debt.”

Proposition 2½ Property Tax Levy Limits, Fiscal 2005-2009⁽¹⁾
(\$ in thousands)

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Total Assessed Valuation	\$69,253,528	\$74,738,001	\$86,516,106	\$90,067,297	\$90,387,171
Growth Levy Limit ⁽²⁾	1,149,230	1,207,764	1,271,017	1,334,309	1,400,631
Levy Ceiling	1,731,338	1,868,450	2,162,903	2,251,682	2,259,679
Tax Levy ⁽³⁾	1,148,742	1,207,620	1,270,260	1,334,278	1,400,015
Under Levy Ceiling	582,596	660,830	892,643	917,404	859,664

(1) Represents amounts assessed on January 1, and subsequently certified by the Commonwealth’s Department of Revenue in December of each fiscal year and does not include Omitted Assessments.

(2) The Growth Levy Limit is the maximum allowable levy as determined by Proposition 2½.

(3) For each fiscal year, the amount of the actual tax levy is the largest amount possible. The Growth Levy Limit would be exceeded if the tax rate were raised an additional cent (\$0.01).

Source: City of Boston Assessing Department.

Revaluation

State law mandates a revaluation of all taxable property every three years. These revaluations are reviewed and certified by the Commonwealth. In the years between revaluations, the Commonwealth permits municipalities to establish new values on the basis of market changes, using the most recent revaluation as a basis. The City has adjusted certified property values in accordance with this procedure in years when market conditions indicated such adjustment was necessary.

In November 2006, the City concluded work on its ninth three-year revaluation for fiscal 2007. The assessment date for fiscal 2007 was January 1, 2006. The City will commence the tenth three-year revaluation for fiscal year 2010, with an assessment date of January 1, 2009. For fiscal 2009, assessments were trended based on market activity leading up to the assessment date of January 1, 2008. Fiscal 2009 assessments for most residential properties have declined. The magnitude of the reduction was dependent on local real estate market conditions. In some areas, residential values remained stable or declined slightly. In other neighborhoods, including those impacted by foreclosure activity, there were more significant value declines. As of the assessment date, the commercial market demonstrated modest growth.

Legislation enacted in 2007 will provide savings for residential taxpayers in fiscal 2009 and in future years. See "City Revenues—Property Taxation—Taxation by Use; Tax Rates."

Certified Triennial Revaluations

<u>Assessment Date</u>	<u>Real and Personal Property Value</u>	<u>Applicable Years</u>
January 1, 2006	\$86.52 billion	fiscal 2007 through 2009
January 1, 2003	66.14 billion	fiscal 2004 through 2006
January 1, 2000	50.49 billion	fiscal 2001 through 2003
January 1, 1997	33.76 billion	fiscal 1998 through 2000

Source: City of Boston Assessing Department.

Taxation by Use; Tax Rates

The property tax base in the City consists of personal property and classes of real estate. The following table shows the classes of taxable real property assessed as of January 1, 2008. The fiscal 2009 tax rates were applied to the January 1, 2008 valuation to determine levy and tax liability for fiscal 2009.

Assessed Valuation of Taxable Real Property by Real Estate Classes, Assessment Dated January 1, 2008

<u>Real Estate Classes</u>	<u>Land Area (Square feet)</u>	<u>Land Valuation</u>	<u>Building Valuation</u>	<u>Total Valuation</u>
Apartments	32,468,604	\$1,313,334,031	\$3,006,899,225	\$4,320,233,256
Agricultural	546,757	58,700	200,300	259,000
Commercial	77,721,071	5,489,884,961	18,064,922,543	23,554,807,504
Commercial Condominium	7,749,891	3,224,900	1,750,185,500	1,753,410,400
Residential Condominium	56,326,284	64,500	22,220,235,427	22,220,299,927
Commercial Land	27,770,550	457,008,295	329,110,565	786,118,860
Condominium Main ⁽¹⁾	54,086,298	-	-	-
Condominium Parking	406,196	1,206,900	63,173,200	64,380,100
Industrial	44,253,181	639,338,024	770,392,393	1,409,730,417
Residential & Commercial	19,166,718	1,371,462,465	3,320,867,040	4,692,329,505
Residential Land	31,927,707	269,847,400	16,950,417	286,797,817
1-Family	156,344,666	4,659,834,399	7,178,910,016	11,838,744,415
2-Family	87,209,909	2,646,558,992	4,664,324,731	7,310,883,723
3-Family	53,203,648	1,935,337,885	4,356,680,228	6,292,018,113
4-Family (4-6 units)	9,429,577	624,913,903	1,318,140,604	1,943,054,507
TOTAL	658,611,057	\$19,412,075,355	\$67,060,992,189	\$86,473,067,544

(1) Condominium Main represents the total land area of all residential and commercial condominiums and condominium-parking units.

Source: City of Boston Assessing Department.

Tax Rates, Fiscal 2005-2009 (per \$1,000 of assessed value)

<u>Fiscal Year</u>	<u>Commercial, Industrial and Personal Property</u>	<u>Residential Property</u>
2009.....	\$27.11	\$10.63
2008.....	25.92	10.97
2007.....	26.87	10.99
2006.....	30.70	11.12
2005.....	32.68	10.73

Source: City of Boston Assessing Department.

The City has five classes of property for taxation purposes: (i) residential real property, (ii) open space land, and (iii) commercial, (iv) industrial and (v) personal property. The City has utilized this classification in adopting its fiscal 1983 through fiscal 2009 tax rates. Within limits under state law, the City may determine the share of the annual levy to be borne by each of the categories. Under these statutory limits, the residential tax rate cannot be given a discount greater than 50%, while the business tax rate cannot exceed 175% of the overall effective tax rate.

The City may also exempt a portion of the assessed valuation of residential real property when used as the taxpayer's principal residence. The amount of the residential exemption can equal up to 30% of the

average assessed value of all residential property in the City. In fiscal 2009, qualifying residents who receive the residential exemption have their taxable assessed values reduced by \$129,385. The residential exemption has no impact on the overall tax rate.

Tax Base

The following table shows, for purposes of year-to-year comparison, the assessed valuations with respect to all property in the City subject to taxation, used for determining the tax levies and tax rates in fiscal years 2005 through 2009.

Assessed Valuations—Fiscal Years 2005-2009 ⁽¹⁾ **(\$ in thousands)***

Fiscal Years	Value of Taxable Land	Value of Taxable Buildings	Total Value Taxable Land and Buildings	Value of Taxable Personal Property	Total Assessed Taxable Value
2009.....	\$19,412,075	\$67,060,992	\$86,473,068	\$3,914,103	\$90,387,171
2008.....	18,745,434	67,529,364	86,274,798	3,792,499	90,067,297
2007.....	18,931,722	64,068,735	83,000,457	3,515,648	86,516,106
2006.....	12,513,403	58,897,095	71,410,498	3,327,508	74,738,001
2005.....	12,385,681	53,734,580	66,120,261	3,133,267	69,253,528

* Rows may not add due to rounding.

(1) Represents assessed values determined as of January 1 in the prior fiscal year. For example, fiscal 2009 assessed values are as of January 1, 2008.

Source: City of Boston Assessing Department.

The following table is a list of all of the taxpayers in the City that had an aggregate tax liability in excess of \$10.0 million for fiscal 2009. Assessed valuations and fiscal 2009 taxes reflect the valuation of property as of January 1, 2008 and the tax liability using applicable tax rates.

Largest Taxpayers: City of Boston, Fiscal 2009 ⁽¹⁾

Name	Personal Property ⁽²⁾	Real Property	Total Assessed Value	Fiscal 2009 Tax Liability
Blackstone Real Estate Partners ⁽³⁾	\$ 751,210	\$ 2,208,693,000	\$ 2,209,444,210	\$ 59,898,033
NSTAR / Boston Edison Company	1,492,081,600	66,846,201	1,558,927,801	42,262,533
Boston Properties	3,317,880	1,533,998,600	1,537,316,480	41,676,650
Tishman Speyer Properties	197,380	1,083,478,500	1,083,675,880	29,378,453
Fort Hill Associates	20,170	832,452,000	832,472,170	22,568,321
Brookfield Properties Corporation	309,170	817,502,500	817,811,670	22,170,874
Broadway Real Estate Partners	0	766,417,200	766,417,200	20,777,570
Beacon Properties	191,490	649,678,500	649,869,990	17,617,975
John Hancock Life Insurance ⁽⁴⁾	2,912,870	520,268,200	523,181,070	14,183,439
UIDC of Massachusetts, Inc.	265,190	508,347,500	508,612,690	13,788,490
One Hundred Federal Street, LPS	3,622,570	497,583,000	501,205,570	13,587,683
Fortis Property Group	0	477,761,400	477,761,400	12,952,112
Dewey Square Tower Associates	399,940	472,643,500	473,043,440	12,824,208
Teachers Insurance And Annuity Association	64,000	394,227,500	394,291,500	10,689,243
	\$1,504,133,470	\$10,829,897,601	\$12,334,031,071	\$334,375,582

(1) The methodology used in creating the table involves the search of the title holder, or holders, of all major parcels of property in the City. This methodology does not necessarily locate all parcels owned by affiliates nor does it differentiate between percentage ownership in a particular parcel.

(2) Pursuant to Chapter 59 of the General Laws, Section 4, personal property consists of movable physical items not permanently attached to real estate. Many items of personal property are exempt from taxation in Massachusetts. There are three general types of personal property that are taxable: business and professional furnishings, household furnishings in property other than the principal residence (for example, a summer house), and personal property of public utilities.

(3) In February 2007, the Blackstone Group LP completed the acquisition of office space held by Equity Office Properties.

(4) In prior years, properties owned by John Hancock Life Insurance were attributed to Manulife Financial, a related corporate entity.

Source: City of Boston Assessing and Treasury Departments.

Real Estate Tax Levies and Collections

The following table shows the level of property tax levies, tax levies net of budgeted reserves for abatements ("Net % Gross"), the gross amount and proportion of each levy collected during the year of levy, the cumulative amount (net of refunds) and proportion of each levy collected as of June 30, 2008 and the total amount (net of refunds) of taxes (current and all prior levies) collected during fiscal 2004 through 2008. Excluded from the following table are receipts from PILOTs and receipts on account of Chapter 121A corporations.

Tax Collections In Relation To Property Tax Levies Fiscal 2004-2008
(Statutory Accounting Basis)
(\$ in millions)

Fiscal Year	Tax Levy			Tax Levy Collected Within Year of Levy			Tax Levy Net of Refunds Collected as of June 30, 2008		
			Net %						
	Gross ⁽¹⁾	Net		Gross Amount	% Gross Levy	% Net Levy	Net Amount	% Gross Levy	% Net Levy
2008	\$1,334.6	\$1,295.5	97.1%	\$1,338.8	100.3%	103.3%	\$1,317.5	98.7%	101.7%
2007	1,270.8	1,223.9	96.3	1,260.2	99.2	103.0	1,252.6	98.6	102.3
2006	1,208.2	1,167.0	96.6	1,202.2	99.5	103.0	1,192.5	98.7	102.0
2005	1,150.1	1,105.2	96.1	1,142.1	99.3	103.3	1,136.1	98.8	102.8
2004	1,094.2	1,052.0	96.2	1,083.9	99.1	103.0	1,079.0	98.6	102.6

(1) Includes Omitted Assessments billed in June of each fiscal year, as well as subsequently deducted residential exemptions.

Source: City of Boston Treasury Department.

The City's property tax bills are mailed quarterly in July, October, December, and April. The bills mailed in July and October represent preliminary tax bills each equal to one quarter of the previous fiscal year's liability. The fair cash value of the property or assessment for the purpose of determining the new fiscal year tax liability is reflected in the third and fourth quarter bills, which are mailed in December and April. See "City Revenues—Property Taxes—Taxation by Use; Tax Rates."

Delinquent Taxes and Tax Titles

Real and personal property taxes (not including motor vehicle, the room occupancy and the aircraft fuel excises) are based on values established by the Assessing Department as of each January 1, and are due in quarterly payments every August, November, February and May. Delinquent real estate and personal property taxes are subject to a 14% per annum interest charge. Subsequent to the end of the fiscal year in which real estate taxes become delinquent, the City secures its lien for such taxes by taking legal title to all delinquent properties, subject to the owners' right of redemption. After this process, known as a "tax taking," is complete, interest accrues on outstanding amounts of delinquent real estate taxes at the rate of 16% per annum. If the taxes remain unpaid for a period of six months from the tax taking, the City may petition the Land Court to foreclose the equity owner's right of redemption. Upon foreclosure, the City may then sell the property in order to liquidate the tax liability. The City estimates that the value of the properties to which such tax titles are attached is substantially less than the amount of delinquent taxes, charges, and interest owed.

Tax title receipts were \$13.7 million, \$12.3 million and \$16.9 million, respectively, in fiscal 2006, 2007 and 2008.

Revenues from Chapter 121A Corporations

A local government in cooperation with its redevelopment authorities may suspend the imposition of real property taxes at normal levels on properties determined to be "blighted" in order to encourage redevelopment of such properties by special corporations organized under Chapter 121A ("Chapter 121A Corporations"). The City receives three forms of revenue from Chapter 121A Corporations. The first consists of excise PILOTs for each Chapter 121A Corporation that are collected by the Commonwealth and distributed to the City. The second form of revenue is contract payments resulting from agreements that may be entered into between the Chapter 121A Corporation and the City relating to City services available to the development. A third form of revenue does not generate significant payments.

Revenue received by the City from Chapter 121A Corporations for the last three fiscal years are shown in the following table.

Revenues to the City from Chapter 121A Corporations
(\$ in thousands)

Fiscal Year Ended June 30	Excise Payments In Lieu of Taxes (Section 10)	Contracts Payments (Section 6A) ⁽¹⁾	Total
2008	\$39,292	\$25,250	\$64,542
2007	40,069	23,783	63,852
2006	36,528	28,522	65,050

(1) Contract Payments (Section 6A) include Chapter 121B, Section 16 payments.

Source: Office of Budget Management.

State Aid

State aid is the second largest revenue source to the City's General Fund after property taxes. Due to the national recession, the state has developed a sizeable structural budget deficit, in the current budget year. Approximately \$2.5 billion dollars in cost reduction measures have been undertaken by the Governor in order to reduce this deficit including reductions in local aid to municipalities. Of the City's major aid categories, Additional Assistance and Lottery have been reduced mid-year while Chapter 70 education aid has been spared. The City has received reductions in these two accounts for the current fiscal year totaling \$22.9 million or 4.6% of general fund aid expected.

Fiscal 2009 state aid to the City was expected to increase by \$11.3 million to \$504.6 million, a 2.3% increase over the \$493.3 million received in fiscal 2008. The City now expects an \$11.5 million or 2.4% decrease in state aid instead.

Since certification of the tax rate on December 15, 2008, the City has received notification of emergency reductions in state aid revenue in the current fiscal year 2009. These reductions were made by the Governor through authority granted by the Legislature. The City's reduction, to be incurred in equal parts over the last two quarterly state aid distributions in fiscal 2009, will total \$22.9 million. The City expects to absorb this reduction through surpluses in other revenues and cost saving measures put in place prior to the announcement of these reductions.

Under the Massachusetts Constitution and state finance law, the State Treasurer has the authority to delay the allotment of state aid appropriations under certain circumstances. In addition, the statute governing the distribution of school aid provides that such payments are due only to the extent that sufficient funds are available. The State Treasurer is also empowered to deduct from state aid amounts appropriated to the City the amount of "charges" or "assessments." The largest of these assessments are those for the Massachusetts Bay Transportation Authority (MBTA) and Charter School Tuition. Assessments also include smaller charges for various state-provided services, and may include debt service paid by the Commonwealth on "qualified bonds" of the City and any sums allocable to the Boston Water and Sewer Commission or the City that are due and unpaid on debt issued to the Massachusetts Water Pollution Abatement Trust. The City has no "qualified bonds" outstanding and has never been assessed for unpaid amounts due the Trust.

Total fiscal 2009 state assessments are expected to amount to \$143.1 million. Total assessments amounted to \$119.8 million and \$128.3 million in fiscal years 2007 and 2008, respectively. State aid to the City in fiscal 2009 net of fiscal 2009 assessments (after mid-year reductions noted above) is expected to decrease \$26.5 million, or 7.3%, to \$338.5 million. Net state aid totaled \$365.1 million in fiscal 2008 and \$363.2 million in fiscal 2007. The City's net state aid remains \$89.8 million below its fiscal 2002 peak distribution.

In addition to direct state aid, the City also receives reimbursement for the cost of teachers' pensions. Teachers' pensions are paid directly by the State Teachers Retirement System for all teacher retirees in the state other than those who retire from the Boston school system. In their case, pensions are paid by the State-Boston Retirement System, funded by the City, and the City is reimbursed by the Commonwealth on an actual pension payout basis. The City received \$85.5 million, \$93.3 million, and \$105.4 million, respectively, in fiscal 2006, 2007 and 2008. The City expects to receive approximately \$105.4 million of reimbursement in fiscal 2009. As part of this reimbursement, the City also receives, subject to annual appropriation by the state legislature, cost of living adjustments approved prior to fiscal 1998 by the legislature for municipal employees. See "The City—Retirement Systems."

State School Building Assistance

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project.

Due to demand for school building assistance grants far exceeding available funds, the state legislature created the Massachusetts School Building Authority (the "Authority") in 2004 to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the State Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. As of March 1, 2009, the City had approximately \$41.4 million of bonds outstanding for school projects approved for grants under the prior law at a reimbursement rate of 90% of approved project costs. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the City to finance such projects.

Projects on the State Board of Education's project priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. In 2005, the Authority approved grants at a reimbursement rate of 90% of approved project costs for three City projects on the priority waiting list as of July 1, 2004. In January 2009, the City and the Authority executed a project funding agreement for Burke High School, the last City school project on the priority waiting list as of July 1, 2004, that will provide up to \$42.4 million in State support for the project.

The Authority recently promulgated new regulations with respect to the application and approval process for new projects. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. In addition, the Authority expects to pay grants for such projects as project costs are incurred pursuant to a project funding agreement between the Authority and the municipality. In most cases, the receipt of these progress payments from the Authority will eliminate the need for the municipality to borrow on a temporary basis to finance the Authority's share of project costs. However, none of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

On July 1, 2007 the Authority began accepting statements of interest from municipalities and school districts describing proposed new projects. One of the City's project proposals was accepted by the Authority for further consideration. The Authority has not yet determined the feasibility of the project and it remains in the pre-approval stage. The ongoing analysis and consideration of the City's project proposal by the Authority does not represent or imply a commitment by the Authority to fund the project. The Authority's financial commitment to the project is only determined through the project funding agreement after careful analysis and the development of architectural and engineering documents.

Excise Revenues

In addition to the major sources of revenue described above, the City receives various other types of revenues. See "Financial Operations—Summary and Comparison of Operating Results (Budgetary Basis)—Fiscal 2004-2008" above. The following is a description of significant excise revenue sources of the City.

Room Occupancy Excise

The City currently has in effect a 4% local room occupancy excise upon the transfer of occupancy of any room in a hotel, lodging house or motel. The Commonwealth collects this tax and distributes it to the City quarterly. The City's room occupancy excise receipts totaled \$30.5 million, \$35.1 million, and \$40.3 million respectively, in fiscal 2006, 2007 and 2008.

Pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), the City has established the City of Boston Room Occupancy Excise Fund (the "Excise Fund") to provide for the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the Boston Convention and Exhibition Center Project (the "BCEC Project"). See "City Indebtedness—Special Obligation Debt."

Of the \$40.3 million in room occupancy excise taxes collected in fiscal 2008, \$17.3 million was retained in the Excise Fund, and \$23.0 million was transferred into the General Fund as authorized by the Convention Center Act. In fiscal 2007, \$15.1 million of the \$35.1 million in room occupancy excise taxes collected was retained in the Excise Fund and \$20.0 million was transferred into the General Fund. In fiscal 2006, \$12.5 million of the \$30.5 million in room occupancy excise taxes collected was retained in the Excise Fund and \$18.0 million was transferred into the General Fund.

Aircraft Fuel Excise

The City also assesses an aircraft fuel excise upon the sale of jet fuel. The Commonwealth collects this tax and distributes it to the City quarterly. The City's aircraft fuel excise receipts totaled \$19.9 million, \$24.3 million, and \$18.8 million respectively, in fiscal 2006, 2007 and 2008. It should be noted that the City received three quarterly excise payments in fiscal 2008, with the fourth quarter received in fiscal 2009. See "Summary and Comparison of Operating Budgets—Fiscal 2009—Revenues."

Motor Vehicle Excise

The Commonwealth assesses an excise on the registration of motor vehicles, the proceeds of which are received by the municipality where the vehicle is principally garaged. The excise is a uniform rate of \$25 per \$1,000 of vehicle valuation. The City's annual motor vehicle excise receipts totaled \$50.1 million, \$34.5 million, and \$49.6 million respectively, in fiscal 2006, 2007 and 2008. See "Summary and Comparison of Operating Budgets—Fiscal 2009—Revenues."

Vehicular Rental Surcharge

The Commonwealth imposes a \$10 surcharge on each vehicular rental transaction contract in the City. One dollar of each surcharge is paid to the City for deposit in the City's Excise Fund for application to the payment of the principal of and interest on indebtedness issued by the City to fund the City's share of costs of the BCEC Project. The City's annual share of vehicular rental surcharges totaled \$1.4 million, \$1.2 million, and \$1.0 million respectively, in fiscal 2006, 2007 and 2008. See "City Indebtedness—Special Obligation Debt."

Departmental Revenues

Several City departments generate significant revenues from fees and charges.

Parking Fines

The City's annual parking fine receipts totaled \$64.0 million, \$62.8 million, and \$63.3 million respectively, in fiscal 2006, 2007 and 2008.

Building Permit Fees

The Inspectional Services Department performs a variety of functions for which fees are imposed such as the granting of building permits. The City's annual building permit fees totaled \$26.3 million, \$27.9 million and \$31.7 million respectively, in fiscal 2006, 2007 and 2008.

Municipal Medicaid Reimbursement

The Office of Budget Management oversees a vendor contract to collect federal reimbursements for Medicaid eligible services provided through the Boston Public Schools. The City's annual municipal Medicaid reimbursement revenue totaled \$13.5 million, \$18.4 million and \$15.8 million respectively, in fiscal 2006, 2007 and 2008.

Other Available Revenues

Under state law, proceeds of the sale of City facilities must be applied to the Surplus Property Disposition Fund to be used to finance capital projects, unless the City Council, with the approval of the Mayor, votes to credit to the General Fund the difference between the sale proceeds and the amount of debt (both principal and interest) incurred in acquiring or improving the sold facility. As of June 30, 2008, there was \$30.1 million remaining in the Surplus Property Disposition Fund.

Grants

The City receives both federal and state grant funds, some of which are determined according to formulas, and others that are awarded competitively. These monies are recorded in special revenue funds.

Federal Grants

Some major sources of federal grant funds in fiscal 2008 included: the Community Development Block Grant (CDBG) Entitlement Program award of \$20.4 million; the Home Investment Partnership Program (HOME) award of \$8.0 million; the Housing Opportunities for Persons with AIDS Program (HOPWA) award of \$1.7 million; the Supportive Housing Program award of \$11.7 million; and the Shelter Plus Care Program award of \$6.4 million. The Boston Public Schools major programs included: The Title I Elementary & Secondary Education Act of 1965 award of \$45.1 million; Special Education Entitlement Grant awards of \$19.2 million; and the School Lunch Program awards of \$23.0 million. The Boston Public Schools were also awarded \$21.3 million from a variety of other federal grants sources during the 2008 fiscal year. Homeland Security grant awards totaled \$14.6 million.

State Grants

In addition to State Aid, the City receives state grants. The Commonwealth assumes 100% of the capital costs and funds 96% of the operating costs associated with the Office of the Sheriff of Suffolk County, an award totaling \$95.8 million in fiscal 2008. The Police Department also received Community Services grant awards that totaled \$8.3 million from the Office of Public Safety. The Fire Department also

received Firefighter grant awards that totaled \$2.3 million from the Office of Public Safety. The Boston Public Schools were awarded approximately \$32.0 million. The three major programs supported by the state education grants are the Special Education Student 50/50 Program totaling \$12.3 million, the Community Partnership Grants totaling \$9.4 million and the Quality Full-Day Kindergarten Grant totaling \$2.7 million.

CITY INDEBTEDNESS

Classification of City Debt

Direct general obligation debt of the City is debt for which the City's full faith and credit are pledged and for the payment of which all taxable property in the City is subject to ad valorem taxation without limit as to rate or amount. General obligation bonds of the City may also be secured in certain circumstances by a pledge of specific City revenues. The special obligation debt of the City is debt, which may be secured solely by a pledge of specific revenues derived from a revenue-producing facility of the City or for the payment of which the City's obligation is subject to annual appropriation.

General Obligation Debt

On June 30, 2008, the City had outstanding approximately \$912.1 million of general obligation long-term bonds, all of which bear fixed rates of interest. On March 1, 2009, the City had approximately \$831.1 million of bonds outstanding.

The City is authorized to secure any of its general obligation indebtedness by a pledge of all or any part of any revenues of the City including, without limitation, any tax, such as real property taxes, any fees payable to or for the account of the City, and certain receipts, distributions and reimbursements held or to be received by the City from the Commonwealth. The City currently has no general obligation bonds or notes outstanding secured by such a pledge.

Debt Limits

All debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor vetoes a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor's veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided, the authorization to issue temporary notes in anticipation of such bonds.

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Biannually, prior to January 31st, the Commissioner of Revenue establishes a final equalized valuation which is the basis for determining the debt limit for the following two-year period or until another equalization has been established. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2009 equals \$105.88 billion. Based on the current equalized valuation, the City's debt limit equals approximately \$5.29 billion, and its double debt limit equals \$10.59 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2008, the City had outstanding debt of \$709.6 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$477.9 million. In addition, as of March 1, 2009, the City had outstanding debt of \$648.4 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$628.9 million. Based on the City's current debt limit of \$5.29 billion, the City had the capacity to authorize an additional \$4.02 billion of debt as of March 1, 2009.

Debt Incurring Capacity
As of March 1, 2009
(\$ in thousands)

	<u>Debt Limit</u>
Normal Debt Limit as of June 30, 2008	\$4,387,466
Debt Outstanding as of June 30, 2008	(709,610)
Debt Authorized but Unissued as of June 30, 2008	<u>(477,921)</u>
Available Capacity under Debt Limit as of June 30, 2008	<u>3,199,935</u>
Increase in Normal Debt Limit based on new EQV effective on January 31, 2009.....	906,360
Debt Adjustments approved in fiscal year 2009.....	(323)
New Authorization approved through March 1, 2009.....	(150,685)
Principal Paid through March 1, 2009	<u>61,238</u>
Available Capacity under Debt Limit as of March 1, 2009.....	<u>\$4,016,524</u>

Source: City of Boston Auditing Department.

There are many categories of general obligation debt, which are not subject to the debt limit and are therefore not included in the Debt Incurring Capacity table above. Some such debt is, however, subject to other debt limits, dollar limitations or state approval. As of March 1, 2009, the City had a total of \$831.1 million in long term debt outstanding, of which \$182.8 million was exempt from the debt limit. As of that date the City also had \$86.4 million of long-term debt that was authorized but unissued and exempt from the debt limit.

Authorized But Unissued Debt

The size of the City's future bond issues will be consistent with the City's financial management policies regarding its level of debt and debt service. The following table sets forth the amounts and purposes of authorized but unissued general obligation debt of the City as of March 1, 2009:

Authorized But Unissued Debt
As of June 30, 2008 and March 1, 2009 ⁽¹⁾

	<u>Statute:</u>	<u>Authorized / Unissued 6/30/08</u>	<u>New Authorizations and Adjustments 07/1/08 to 3/1/09</u>	<u>Authorized / Unissued 3/1/2009</u>
GENERAL PURPOSE:				
Acquisition of Land: Outdoor Facilities	C44 s7 (25)	\$43,328,461	\$13,678,100	\$57,006,561
Acquisition of Land: Cemetery Improvements	C44 s7 (20)	1,082,009	308,100	1,390,109
Acquisition of Land: Landfill Area	C44 s8 (24)	3,732,167	-	3,732,167
Departmental Equipment	C44 s7 (9)	12,287,049	4,372,000	16,659,049
Rem, Recon, Rehab - Firefighting Apparatus	C44 s7 (9A)	12,718	-	12,718
Equipment - Fire Boat Acquisition	C44 s7 (13)	4,123,288	-	4,123,288
Computer Hardware	C44 s7 (28)	8,361,981	5,075,714	13,437,695
Computer Software	C44 s7 (29)	1,600,072	6,644,286	8,244,357
Construction/Re-Construction of Surface Drains	C44 s7 (1)	-	389,188	389,188
Reservoir Constr/Enlargement; Water Treatment	C44 s8 (4)	293,386	6,750	300,136
Water Mains Laying/Or Re-Laying, Lining Mains	C44 s8 (5)	5,816,320	(1,640,481)	4,175,840
Remodeling & Extraordinary Repairs	C44s7(3A)	201,841,596	63,810,473	265,652,069
Energy Conservation & Alt. Energy Improv	C44s7 (3B)	478,993	-	478,993
Construction of Walls or Dikes	C44s7(7)	100,000	303,000	403,000
Architectural Services for Plans and Specifications	C44 s7 (21)	78,158	500,000	578,158
Engineering & Architectural Services	C44s7(22)	10,330,643	3,068,450	13,399,093
Water Meter Purchase & Installation	C44s8(7A)	-	196,501	196,501
Water Department Equipment, Purchase, Replacement	C44 s8 (7C)	-	1,437,230	1,437,230
Urban Redevelopment & Renewal	C121Bs20	12,577,563	-	12,577,563
Economic Development & Industrial Corporation	C1097 s11 Acts'71	7,552,286	-	7,552,286
				-
SCHOOLHOUSES and SITES:				
Construction of Buildings; Acquisition of Land	C44 s7 (3)	40,057,588	(873,167)	39,184,421
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	75,771	-	75,771
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	1,791,109	-	1,791,109
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	4,324,583	-	4,324,583
School Project Loan: Act of 1948	C70B	15,576,331	1	15,576,332
				-
PUBLIC BUILDINGS; Excluding Schools:				
Capital Improvements: Act of 1973	C642 s7 Act'66 as am.	2,592,005	-	2,592,005
Capital Improvements: Act of 1991	C642 s7 Act'66 as am.	16,764,802	-	16,764,802
Capital Improvements: Act of 1996	C642 s7 Act'66 as am.	15,730,063	(1,195,812)	14,534,252
Construction of Buildings; Acquisition of Land	C44 s7 (3)	45,210,714	27,312,000	72,522,714
Boston City Hospital	C659 Acts of 1986	660,000	-	660,000
				-
PUBLIC WORKS:				
Sidewalk Construction	C44 s7 (6)	7,357,527	6,564,700	13,922,227
Traffic Sig., Pub. Ltg. Fire Alarm Comm. Install.	C44 s7 (14)	16,349,643	6,485,000	22,834,643
Bridge Construction	C44 s7 (4)	27,783,975	9,089,600	36,873,575
Public Ways Construction	C44 s7 (5)	<u>57,537,017</u>	<u>4,280,200</u>	<u>61,817,217</u>
TOTAL:		<u>\$565,407,817</u>	<u>\$149,811,833</u>	<u>\$715,219,650</u>

(1) Some columns may not add due to rounding.

Source: City of Boston Auditing Department and Office of Budget Management.

**Summary of Authorized But Unissued Within and Outside Debt
As of June 30, 2008 and March 1, 2009 ⁽¹⁾**

"Within" Debt Limit=	477,921,431	151,007,644	628,929,075
"Outside" Debt Limit=	<u>87,486,386</u>	<u>(1,195,811)</u>	<u>86,290,575</u>
TOTAL:	<u>\$565,407,817</u>	<u>\$149,811,833</u>	<u>\$715,219,650</u>

(2) Some columns may not add due to rounding.

Source: City of Boston Auditing Department and Office of Budget Management.

Debt Statement

The following table sets forth the City's general obligation debt as of March 1, 2009.

**Debt Statement as of March 1, 2009
General Obligation Debt ⁽¹⁾**

Purpose for Which Issued	Principal Outstanding as of June 30, 2008	Retired in Fiscal 2009 as of March 1, 2009	Principal Outstanding as of March 1, 2009	Deemed Payable from Related Revenues ⁽²⁾	Net Principal Amount
General Purpose	\$605,228,878	\$(46,342,933)	\$558,885,945	\$(5,622,149)	\$553,263,796
MWPAT	8,846,329	(612,086)	8,234,243	(1,251,243)	6,983,000
Economic Development	2,901,024	(378,583)	2,522,441	-	2,522,441
State Urban Development Relocation	19,171,686	(1,989,494)	17,182,191	-	17,182,191
Schools	92,244,236	(8,972,400)	83,271,836	(49,963,102)	33,308,734
Public Buildings	78,046,836	(7,676,310)	70,370,526	(22,649,692)	47,720,834
Public Works	104,991,481	(14,792,634)	90,198,848	-	90,198,848
Cemeteries	<u>630,858</u>	<u>(163,220)</u>	<u>467,638</u>	-	<u>467,638</u>
Totals	<u>\$912,016,328</u>	<u>\$(80,927,660)</u>	<u>\$831,133,668</u>	<u>\$(79,486,185)</u>	<u>\$751,647,482</u>

(1) Columns may not add due to rounding.

(2) Includes revenues related to, or derived from facilities for which the debt was incurred. Such revenues include:

- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation and rental income from a City-owned building at 1010 Massachusetts Avenue;
- b. Debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust; and
- c. Grants from the Massachusetts School Building Authority for school construction projects.

Source: City of Boston Auditing Department.

Debt Service Requirements

The following table sets forth the City's debt service requirements for general obligation debt for each year from June 30, 2004 through 2008. The debt service requirements table shows the gross Debt Service Requirements, offset by revenues received from related sources.

Debt Service Requirements—Fiscal 2004-2008 ⁽¹⁾

	Fiscal Year Ended June 30, 2004	Fiscal Year Ended June 30, 2005	Fiscal Year Ended June 30, 2006	Fiscal Year Ended June 30, 2007	Fiscal Year Ended June 30, 2008
Gross Debt Service Requirements					
Bonded Debt:					
Principal.....	\$ 86,490,297	\$ 85,425,487	\$ 77,146,592	\$ 82,875,539	\$ 84,577,086
Interest.....	<u>40,530,338</u>	<u>37,935,112</u>	<u>38,004,782</u>	<u>38,676,232</u>	<u>39,010,910</u>
Total.....	<u>\$127,020,635</u>	<u>\$123,360,599</u>	<u>\$115,151,374</u>	<u>\$121,551,771</u>	<u>\$123,587,996</u>
Less Revenue Deemed Available From Related Sources: ⁽²⁾					
Boston Public Health					
Commission Payments	\$ 4,010,292	\$ 2,923,781	\$ 1,650,625	\$ 1,482,942	\$ 1,185,666
Fund for Parks & Recreation.....	269,511	278,102	273,154	267,875	262,125
1010 Massachusetts Ave	1,520,102	1,486,053	1,532,227	1,622,576	1,652,301
MWPAT Loan Subsidy					
Amounts.....	581,779	554,594	542,030	524,894	516,522
School Construction Assistance..	<u>17,555,199</u>	<u>16,144,882</u>	<u>15,463,685</u>	<u>15,134,146</u>	<u>13,711,961</u>
Total Net Debt Service Requirements.....	<u>\$103,083,753</u>	<u>\$101,973,187</u>	<u>\$ 95,689,653</u>	<u>\$ 102,519,339</u>	<u>\$ 106,259,421</u>

(1) Columns may not add due to rounding.

(2) Includes revenues related to, or derived from facilities for which the debt was incurred. Such revenues include:

- a. Receipts from the Boston Public Health Commission for debt attributable to projects undertaken on behalf of the former Department of Health and Hospitals, and from the Fund for Parks and Recreation, and rental income from a City-owned building at 1010 Massachusetts Avenue;
- b. Debt service subsidies on City debt issued to the Massachusetts Water Pollution Abatement Trust; and
- c. Grants from the Massachusetts School Building Authority for school construction projects.

Source: City of Boston Auditing Department.

The related revenues shown in the foregoing Debt Statement and table of Debt Service Requirements are not pledged to the payment of specific indebtedness, as with special obligation debt. However, such revenues may substantially reduce the amount of tax or other revenues of the City that must be raised to pay debt service on the related debt.

Certain Debt Ratios

The following table sets forth information as of March 1, 2009 with respect to the approximate ratio of the City's long-term general obligation debt to certain economic factors.

Debt Ratios As of March 1, 2009

	<u>Amount</u>	<u>Per Capita ⁽¹⁾</u>	<u>Ratio to Assessed Property Value ⁽²⁾</u>	<u>Debt Per Capita as a % of Personal Income Per Capita ⁽³⁾</u>
Gross General Obligation Debt	\$831,133,668	\$1,366.21	0.92%	2.77%
Net General Obligation Debt ⁽⁴⁾	751,647,482	1,235.55	0.83	2.51

(1) U.S. Census Bureau as of July 2007—Boston's Estimated Population equaled 608,352.

(2) Assessed Property Values equaled \$90.39 billion as of January 1, 2008. State law requires that property be assessed at fair cash value. See "City Revenues—Property Taxes—Revaluation."

(3) U.S. Department of Commerce, Bureau of Economic Analysis, December 2008, Revised Series—Suffolk County's 2006 Per Capita Personal Income = \$49,239.

(4) As represented in "Debt Retirement as of March 1, 2009."

Source: City of Boston Auditing Department and Boston Redevelopment Authority.

Three-Year Debt Summary

The following table sets forth a three-year summary of the status of the City's outstanding general obligation debt as of June 30th of each respective fiscal year and certain information concerning the City's debt service requirements for such fiscal periods.

Debt Summary, Fiscal 2006 - 2008 (GAAP Basis) (\$ in thousands)

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Outstanding General Obligation Debt	\$849,179	\$870,373	\$912,061
Authorized But Unissued Debt.....	<u>\$525,523</u>	<u>\$540,908</u>	<u>\$565,408</u>
Debt Service.....	\$112,600	\$113,212	\$115,771
Debt Service as a % of Total General Fund Revenues, Transfers and Other Available Funds.....	5.3%	5.3%	5.2%
Debt Service as a % of Total General Fund Expenditures	5.7%	5.5%	5.3%
Debt Service as a % of Total Net Tax Levy	9.3%	9.1%	8.7%
Bonds Issued			
General Obligation - New Money.....	\$80,000	\$100,000	\$126,185
General Obligation - Refunding Bonds	\$ -	\$ 85,425	\$ 28,155
Total Bonds Issued.....	<u>\$80,000</u>	<u>\$185,425</u>	<u>\$154,340</u>

Source: City of Boston Auditing Department.

Short-Term Borrowings

Although the City is authorized to borrow for operating purposes through the issuance of short-term notes in anticipation of revenue receipts, it has not done so in several years. In addition, the City is authorized to issue short-term debt obligations ("BANs") in anticipation of the issuance of long-term bonds. Currently, no BANs are outstanding.

Special Obligation Debt

In addition to general obligation indebtedness, the Bond Procedure Act of 1983 and various other special acts authorize the City to incur indebtedness which is secured by and payable solely from certain revenues of the City which are pledged for the payment of such indebtedness or which are subject to annual appropriation by the City for such purpose. The only special obligation indebtedness of the City outstanding as of March 1, 2009 was \$87.8 million Special Obligation Refunding Bonds, Boston City Hospital Issue (the "BCH Bonds") and \$100.5 million Convention Center Loan, Act of 1997, Special Obligation Bonds, Series A (the "Convention Center Bonds").

The BCH Bonds were issued in 2002 in connection with the restructuring of debt originally incurred by the City in 1990 (and refunded in 1993) to finance a major construction and renovation program for the City's former acute care hospital then known as Boston City Hospital ("BCH"). On July 1, 1996, the operations of BCH and Boston University Medical Center Hospital were consolidated into Boston Medical Center, which is owned and operated by the Boston Medical Center Corporation ("BMCC"), a private Massachusetts non-profit corporation. Simultaneously with the consolidation, all other public health operations of the City's Department of Health and Hospitals, as well as title to BCH, were transferred to the Boston Public Health Commission (the "Commission"), and the BCH campus was leased to BMCC for an initial term of 50 years.

The BCH Bonds are special obligations of the City payable from, and secured solely by a pledge and assignment of amounts payable on a promissory note issued to the City by the Commission. The promissory note is in turn a special obligation of the Commission secured by an assignment and pledge of rents payable by BMCC to the Commission under the lease of the BCH campus and, upon any failure of BMCC to pay all or any part of such rent, the proceeds of certain assistance grants payable by the City to BMCC. The payment of assistance grants to BMCC is subject to annual appropriation by the City and the payment of rent by BMCC is contingent upon the appropriation and payment of such assistance grants. The rent payments and the assistance grants are each at least equal, in amount and terms of payment, to the principal and interest payable on the BCH Bonds. The City has also covenanted and agreed, subject to appropriation, to meet any deficiency in the amounts otherwise pledged for the payment of the BCH Bonds. The BCH Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the BCH Bonds.

The Convention Center Bonds were issued by the City in April, 2002 pursuant to Chapter 152 of the Acts of 1997, as amended (the "Convention Center Act"), to permanently finance certain costs incurred by the City in connection with the development of the Boston Convention and Exhibition Center (the "BCEC Project"), a joint development of the City, acting through the Boston Redevelopment Authority (the "BRA"), which was responsible for the acquisition, preparation and remediation of the site for the BCEC Project, and the Commonwealth, acting through the Massachusetts Convention Center Authority (the "MCCA"), which was responsible for the construction of the project and which owns and operates the facility. As provided in the Convention Center Act, the City has reimbursed the BRA for \$176.8 million of site costs for the BCEC Project, funded in part from the proceeds of the Convention Center Bonds and in part from special revenues accumulated by the City since enactment of the Convention Center Act, including the proceeds from the sale of hackney (taxi) medallions authorized by the Convention Center Act.

The Convention Center Bonds are special obligations of the City payable from, and secured solely by a pledge of, certain "Pledged Receipts," including all amounts received by the City from a 4% local option room occupancy excise imposed in Boston and from a portion of a surcharge imposed by the Commonwealth on vehicular rental transaction contracts in Boston. See "City Revenues-Excise Revenues." The Convention Center Bonds do not constitute general obligations of the City and the full faith and credit of the City are not pledged to the payment of the principal of and interest on the Convention Center Bonds.

The Convention Center Act authorizes the City to annually transfer to the City's General Fund all Pledged Receipts that are not required for the payment of the Convention Center Bonds. The City anticipates that room occupancy excise receipts that are attributable to lodging establishments that were first opened for business after July 1, 1997 (a measuring date provided in the Convention Center Act), together with the other Pledged Receipts held under the Convention Center Trust Agreement, will be sufficient to pay the future debt service on the Convention Center Bonds. Accordingly, the City anticipates that excise tax receipts that were historically available to fund annual operating expenditures of the City will be available for transfer to the General Fund. In fiscal 2006, 2007 and 2008, excise tax receipts in excess of the debt service requirements on the Convention Center Bonds were transferred to the General Fund in the amount of \$18.0 million, \$20.0 million and \$23.0 million, respectively. See "City Revenues-Excise Revenues-Room Occupancy Excise," above.

Debt of Agencies Related to the City

In addition to general obligation and special obligation indebtedness of the City, the City and certain agencies related to the City are authorized to issue debt which is solely an obligation of the agency or which, although issued by the City, are payable solely from revenues derived from projects financed by such debt. Except as described below, such obligations do not constitute a debt of the City.

Boston Water and Sewer Commission

The Boston Water and Sewer Commission (the "Commission") is an independent body politic and corporate and a political subdivision of the Commonwealth created in July 1977. The Commission, among its other powers, is authorized to operate and maintain the water and sewer systems of the City, construct improvements to the systems, collect user charges for its services, and finance its activities and its borrowing through its revenues. The City is not obligated on debt issued by the Commission. The Commission's user charges, as required by statute, are designed to produce revenues to the Commission sufficient to pay all of its current operating expenses. These user charges are anticipated to increase moderately. The City's property tax base is not used to subsidize water and sewer services. Water and sewer charges outstanding from certain of the Commission's prior fiscal years have been committed to the City for collection. The City uses its lien and foreclosure powers to collect those overdue water and sewer charges for those years on the Commission's behalf.

Economic Development and Industrial Corporation of Boston

The Economic Development and Industrial Corporation of Boston ("EDIC") is a body politic and corporate and an instrumentality of the Commonwealth with a board of five members, also appointed as the members of the Boston Redevelopment Authority ("BRA"). EDIC has a variety of powers to assist industrial development projects in the City including the power to issue special obligation revenue bonds to finance economic development projects in the City, which are solely the obligation of EDIC or the owner or lessee of the financed project. The City is also authorized to appropriate or borrow monies in aid of EDIC development projects within certain urban renewal debt limitations.

Boston Redevelopment Authority

The BRA is a public body politic and corporate constituting the City's redevelopment authority. It acts as the City's planning board and exercises certain powers of the state Department of Housing and Community Development. The BRA board consists of four members appointed by the Mayor, subject to confirmation by the City Council, and one appointed by the state Department of Housing and Community Development. The staff includes architects, economists, engineers, lawyers and urban planners, as well as management personnel and administrative support. The BRA provides the planning support for major construction, development and redevelopment activity in the City. Although the BRA is authorized to issue revenue bonds and notes which would not constitute indebtedness of the City, BRA projects have traditionally been financed through a combination of federal and state grants, the proceeds of general obligation bonds issued by the City and revenues from the lease or sale of land.

Boston Public Health Commission

The Boston Public Health Commission is a body politic and corporate and a political subdivision of the Commonwealth created in June 1996 as the successor to the City's Department of Health and Hospitals. See "The City—Principal Government Services—Public Health." The Commission is responsible for the implementation of public health programs in the City and serves as the board of health of the City. In addition to its other powers, the Commission is authorized by its enabling act, with the approval of the City Council and the Mayor, to borrow money for any of its corporate purposes from the City or from the Massachusetts Health and Educational Facilities Authority. Debt of the Commission is not a debt or other obligation of the City. Other than the promissory note described below, no debt of the Commission is currently outstanding.

Pursuant to agreements between the City, the Commission, BMCC and a trustee for the benefit of the registered owners of the BCH Bonds, the Commission has agreed to apply rents received from BMCC to the payment of a promissory note issued by the Commission to the City and assigned by the City as security for the BCH Bonds. Payments made by the Commission on the note are applied by the City to pay the principal of and interest on the BCH Refunding Bonds. See "City Indebtedness-Special Obligation Debt."

The Commission is also obligated to reimburse the City for debt service paid on all outstanding general obligation bonds of the City issued for public health and hospital purposes. Such bonds were outstanding on March 1, 2009 in the aggregate principal amount of \$7.0 million. The Commission has

required, and can be expected to continue to require, substantial financial support from the City to maintain its public health mission and programs, including satisfaction of its obligations described above.

Other Agencies and Corporations

Two other public bodies are empowered, either by themselves or through the City, to issue special obligation revenue bonds. The BHA is responsible for the construction, financing and operation of residential housing for low-income persons. While the City provides certain municipal services to BHA developments, and capital expenditures for City infrastructure related to those developments, the City is not directly or indirectly liable for operating or debt service expenses of the BHA. The City, acting by and through the Boston Industrial Development Financing Authority, is authorized to issue revenue bonds to finance the construction of industrial, commercial and pollution-control facilities. The City has also traditionally provided financial assistance to a number of nonprofit corporations organized to provide and conduct civic and charitable functions for residents and visitors to the City and to stimulate the economic development of the City.

Major Contractual Obligations

In addition to its debt obligations, the City has substantial contractual obligations. Included in this category are the City's obligation for pension benefit payments to its contributory retirement system for City employees which is included in the annual tax levy (see "Retirement Systems"); agreements for the provision of sanitation, solid waste collection and disposal services (see "The City—Principal Government Services—Public Works"); and agreements with BMCC for the provision of operating assistance and capital grants (see "City Indebtedness—Special Obligation Debt" and "Debt of Agencies Related to the City—Boston Public Health Commission" above). The City has also executed several equipment lease agreements in order to finance the acquisition of departmental equipment. As of March 1, 2009, the amount outstanding under the lease agreements equaled \$31.0 million. Lease payments are subject to annual appropriation, and are not included in the City's debt limit.

Capital Planning and Borrowing Program

Capital Planning Process

The capital planning process is organized to coincide with the annual budget cycle. It begins when City departments submit capital requests, and concludes when the City publishes an updated version of its five-year capital plan. Capital appropriations are requested of the City Council each year for the cost of projects included in the updated capital plan. This process allows for a continuing reassessment of capital needs and projections. On April 9, 2008, the Mayor submitted his fiscal 2009 budget to the City Council, which included approximately \$150.7 million in new authorizations to support the fiscal 2009 capital plan. All authorizations were approved by the City Council on June 18, 2008, and became effective in July 2008.

The City awards construction contracts and incurs capital outlay costs based upon appropriations to be funded from bond proceeds and grant receipts. In circumstances where project expenditures occur prior to the receipt of bond proceeds or grant reimbursements, the City temporarily pays such costs from available funds.

Capital Funding Plan

The City funds its capital plan primarily through the issuance of general obligation bonds. The size of the City's future bond issues will be consistent with the City's financial management policies regarding its level of debt and debt service. The timing and size of the capital plan will be actively managed within these constraints.

Current Capital Investment Plans

The City's fiscal 2009-2013 capital plan released in April 2008 proposes new long-term investments over the next 5-7 years as well as several studies to lay the groundwork for future growth. In all, \$1.52 billion from City and non-City sources are proposed to be spent on capital projects. These expenditures will be used for improvements to schools, libraries, parks and recreation, roads and bridges. In view of the proven economic and social benefits of consistent, long-range capital planning, the City remains committed to moving forward with its capital program.

The fiscal 2009-2013 capital plan includes projects to improve the physical condition of the City's schools. In addition to ongoing roof replacements, masonry repairs and fire alarm systems upgrades, the City completed an addition to and a renovation of Burke High School in September, 2008. The project incorporated the construction of a new neighborhood branch library into the school addition that will replace an existing branch library building. Construction was also completed on a new neighborhood police

station in Charlestown. A new branch library will open in Mattapan in the spring of 2009 replacing an older facility. Going forward, LEED certifiable renovations will begin on a branch library and planning for energy efficiency improvements at the central library will be underway.

The maintenance of the City's roadways and sidewalks is a significant part of the capital plan. In fiscal 2008, 38.5 miles of roads were reconstructed or resurfaced and 351,139 square feet of sidewalks were also repaired. Approximately 318 new street lights were installed to improve visibility and public safety.

Since its inception, the capital plan has comprehensively examined the capital needs of the City and has emphasized long-term planning and financial management. This planning process has enabled the City to alter the pattern of decades of previous under investment and to respond to emerging program goals of its departments.

For a description of the City's expenditures in support of the BCEC see "City Indebtedness – Special Obligation Debt" above.

EMPLOYEE BENEFITS

Retirement Systems

The City's employees are not participants in the federal social security system. The City participates in a contributory defined benefit retirement system that is administered by the State-Boston Retirement System ("SBRs"). The SBRs provides pension benefits to retired City employees under a state contributory retirement statute, and is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex-officio*; two individuals elected by members of the system; an individual chosen by the Mayor; and an individual chosen by the other four members or appointed by the Mayor if the other four members do not agree on a selection within thirty days of a vacancy. All retirement allowances are primarily paid by employer and employee contributions and the resulting investment earnings. Employee contributions in the form of a mandatory deduction from regular compensation constitute an annuity fund from which the annuity portion of the retirement allowance is paid.

The City is committed to funding based upon a schedule approved by the SBRs and the state actuary, which includes paying the current year's estimated present value of benefits earned during the year ("normal cost") and an annual contribution toward reducing the unfunded liability to zero by the year 2023. This schedule is calculated in accordance with the entry age actuarial cost method. The schedule is updated by SBRs and subject to approval at least every three years by the state Public Employee Retirement Administration Commission ("PERAC"), a state agency established to oversee all 106 Massachusetts public retirement systems. The SBRs most recently received approval for a funding schedule for fiscal 2010, 2011, and 2012. The latest approved schedule targets full funding of the system five years prior to the legally required funding date of 2028. The annual appropriation, based on the funding schedule, is a legal obligation of the City that must be included as part of the property tax rate certification by the Commonwealth.

Beginning January 1, 2000, the Board adopted an asset valuation method that gradually incorporates over time annual investment gains over and losses under the actuarial investment return assumption of 8%. The actuarial value of assets is used in determining the funding schedule, thereby avoiding the direct and immediate impact of dramatic upswings and downswings inherent in the investment markets.

A cost of living adjustment ("COLA") is set each year at the CPI or an amount up to, but not greater than, 3% on the first \$12,000 of a retiree's annual payment. COLAs are considered by the Board on an annual basis. As part of the annual review process, the Board considers the fiscal conditions of the City and whether the granting of a COLA would substantially impair the City's funding schedule. COLAs were approved for each year from fiscal 1999 through fiscal 2009. The funding schedule incorporated a 3% COLA into its annual appropriation calculation. The Commonwealth, meanwhile, has incorporated in its pension funding schedule sufficient funds to fulfill its obligation for local COLAs it had awarded prior to fiscal 1998.

Schedule of Funding Progress
(\$ in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b - a) / (c)
January 1, 2008	\$4,458,002	\$6,596,148	\$2,138,146	67.6%	\$1,299,112	164.6%
January 1, 2007	4,138,146	6,223,154	2,085,008	66.5	1,221,404	170.7
January 1, 2006	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
January 1, 2005	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
January 1, 2004	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7

Source: City of Boston Retirement Board.

The SBRS recorded a five-year average annualized return (January 1, 2003 through December 31, 2007) equal to 13.7% and a long term average annualized return (measuring since January 1, 1985) equal to 10.4%. In calendar year 2007 the rate of return for the SBRS equaled 10.4%, and the composite rate of return for all 106 Massachusetts public pension funds equaled 11.3%. When calendar year 2008 investment results are finalized, it is expected to reflect an approximately 25% decrease in asset value, similar to decreases experienced by other Massachusetts public pension systems. This decrease in 2008 will result in significant decreases in the five year and long-term annualized average rate of returns. This SBRS five year average annualized rate of return will go below the SBRS's investment assumption of 8%, however the long term average annualized return will remain above the SBRS's investment assumption of 8%.

During 2007, the state passed "An Act to Reduce the Stress on Local Property Taxes through Enhanced Pension Investment" (Chapter 68 of the Acts of 2007). In accordance with Chapter 68, PERAC will annually assess investment performance and funded ratio of systems as of January 1st. If a system is: (i) less than 65% funded, and (ii) has trailed the performance of the Pension Reserve Investment Trust ("PRIT") fund by 2% or more on an annualized basis over the previous ten year period, PERAC will declare the system underperforming and the system shall transfer its assets to the PRIT fund. Such transfer and control would be permanent.

Currently, the City is the only municipality in the Commonwealth which is responsible for funding its teachers' pension liabilities. The City is obligated to annually appropriate amounts for such purpose on an actuarial cost basis. Investment of teachers' pension assets is managed by the SBRS. However, the Commonwealth is obligated to annually reimburse the City for teachers' pension liabilities on a cost of benefits basis. Such amounts are deposited in the City's General Fund. On December 4, 2008, the City, the SBRS, the Commonwealth and PERAC entered into a Memorandum of Agreement which is intended to transfer the responsibility for funding Boston teachers' pension liabilities to the Commonwealth effective with fiscal year 2010 in order to link investment responsibility with responsibility for pension liability. Assets held by the SBRS which are allocable to teachers' pension liabilities will be transferred to the state Pension Reserves Investment Fund and managed by the state Pension Reserves Investment Management Board. The SBRS will continue to administer Boston teachers' pensions and benefits. Full implementation of the Memorandum of Agreement is contingent upon passage of state legislation.

In addition to SBRS, the Boston Retirement System, the predecessor system, is funded by the City. This predecessor system has as its members only those active and retired employees whose employment commenced prior to 1946 and who have not elected coverage under the SBRS program. This system is funded on a "pay-as-you-go" basis. In addition to SBRS and its predecessor system, the City also provides noncontributory retirement benefits to certain employees whose employment predates SBRS and its predecessor system or who are veterans who meet certain state law requirements. The City is currently providing such benefits to approximately 173 pensioners.

Amounts expended or estimated to be expended by the City for pension and annuities contributions to SBRS and its predecessor system in the most recent fiscal periods (net of state reimbursements for teacher retirement costs) are as set forth below.

City of Boston Pensions and Annuities Costs
(Budgetary Accounting Basis)
(\$ in millions)

<u>Fiscal Year Ending June 30</u>	<u>SBRs Contributory System</u>	<u>Predecessor/ Noncontributory System</u>	<u>Teachers Pension Reimbursement</u>	<u>Net Pension Cost</u>
2009 Budgeted	\$213.2	\$4.2	\$(105.4)	\$112.0
2008	202.9	4.1	(105.4)	101.6
2007	192.9	4.6	(93.3)	104.2
2006	186.3	4.6	(85.2)	105.7
2005	146.6	4.9	(76.5)	75.0
2004	137.0	4.9	(61.4)	80.5

Source: City of Boston Office of Budget Management.

Other Post Employment Benefits

In addition to the pension benefits described above, the City provides post-employment health care and life insurance benefits in accordance with state statute to approximately 13,800 participating retirees and their beneficiaries on a pay-as-you-go basis. Expenditures for such purposes were approximately \$114.9 million in fiscal 2008.

For retirees and their beneficiaries, the City currently pays 75% of Blue Cross/Blue Shield of Massachusetts premiums and 90% of HMO premiums. In 2007, the City successfully negotiated a decrease in the employer contribution for HMO premiums with the majority of its active employees, gradually adjusting to an 85% contribution by 2009. No contribution changes were adopted for Medicare products, in which the majority of the City's retirees are enrolled. The City also pays 50% of the premiums for \$5,000 of life insurance for each eligible retiree.

GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, and GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, became effective June 30, 2007 and June 30, 2008, respectively. These statements require the City to account for and report the value of its future other post-employment benefit (OPEB) obligations currently rather than on a pay-as-you-go basis. The City received an independent actuarial valuation of its OPEB obligations as of June 30, 2007. The report estimated that the City's portion of the total OPEB actuarial accrued liability as of that date to be between \$5.49 billion (pay-as-you-go) and \$3.02 billion (pre-funded), depending on the funding policy elected by the City.

Based on the estimates contained in the actuarial valuation as of June 30, 2007, the City's portion of the annual actuarially required contribution to OPEB on account of then current and estimated future retirees was projected to increase over the ensuing 30 year period to approximately \$327.8 million per annum on a pay-as-you-go basis and that its annual actuarially required contribution would be approximately \$213.4 million per annum under an actuarially pre-funded policy.

In the absence of legal authority to establish a trust fund for the purpose of prefunding OPEB liabilities in the same manner as traditional pension benefits, the City established an OPEB Stabilization Fund in the fiscal 2008 Budget for the purpose of paying a portion of these future costs. An appropriation of \$20 million to the OPEB Stabilization Fund was included in the fiscal 2008 Budget. An additional appropriation of \$25 million was included in the fiscal 2009 Budget. In addition, in October 2008, the City procured investment consulting services in order to optimize investment of the OPEB Stabilization Fund.

Chapter 479 of the Acts of 2008 ("Chapter 479"), effective January 10, 2009, authorizes any city or town in the Commonwealth accepting its provisions by vote of its governing body to establish a separate trust fund and to appropriate amounts to the fund in accordance with a schedule developed by an actuary retained by the city or town and approved by the state actuary in order to reduce the city or town's unfunded actuarial OPEB liability and to meet the normal cost of future OPEB benefits. The act designates the treasurer of the city or town as the custodian of the fund and provides that amounts in the fund shall be invested by the treasurer consistent with the "prudent investor rule" set forth in state law. As of the date of this Information Statement the City had not accepted Chapter 479.

AVAILABILITY OF OTHER INFORMATION

The City's Auditing Department prepares a Comprehensive Annual Financial Report (CAFR) with respect to each fiscal year ended June 30 which generally becomes available in December of the following fiscal year. The CAFR is presented in three sections: (1) an Introductory Section which includes general information about the City and summarizes financial activity for the fiscal year; (2) a Financial Section

which includes the Independent Auditors' Report on the City's Basic Financial Statements for the fiscal year, Management's Discussion and Analysis, the Basic Financial Statements for the fiscal year and the Combining and Individual Fund Financial Statements and Schedules for the various funds of the City, including required supplemental information; and (3) a Statistical Section which includes financial data, debt computations, and a variety of demographic, economic and supplemental statistical information concerning the City. Specific reference is made to the City's CAFR for the year ended June 30, 2008, which is available from the City. A copy of the CAFR has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and is also posted at the City's internet site at www.cityofboston.gov/auditing.

Questions regarding this Information Statement and requests for additional financial information concerning the City of Boston should be directed to Sally D. Glora, City Auditor, Boston City Hall, Room M-4, One City Hall Square, Boston, Massachusetts 02201-1020, telephone (617) 635-4671. Questions regarding legal matters relating to this Information Statement should be directed to Robert H. Hale, Edwards Angell Palmer & Dodge, LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0407.

CITY OF
BOSTON, MASSACHUSETTS



SUPPLEMENT DATED OCTOBER 1, 2009
TO
INFORMATION STATEMENT
DATED MARCH 1, 2009

This Supplement contains certain information concerning the City of Boston, Massachusetts (the "City"), which supplements the information contained in the City's Information Statement dated March 1, 2009 which should be read in its entirety in conjunction with this Supplement. This Supplement is authorized by the City to be distributed to prospective purchasers in connection with bonds or notes offered for sale by the City, and to the Municipal Securities Rulemaking Board, as the sole nationally recognized municipal securities information repository recognized by the Securities and Exchange Commission for purposes of its Rule 15c2-12. This Supplement may not be reproduced or used in whole or in part for any other purpose without the express written consent of Lisa Calise Signori, Director of Administration and Finance and Collector-Treasurer, Boston, Massachusetts.

SUPPLEMENT DATED OCTOBER 1, 2009

to

INFORMATION STATEMENT

DATED MARCH 1, 2009

This supplement (the "Supplement") is provided by the City of Boston (the "City") in order to supplement certain of the information contained in the City's Information Statement dated March 1, 2009 (the "Information Statement"). All capitalized terms not otherwise defined in the Supplement will have the meanings ascribed to such terms in the Information Statement.

The Information contained under the caption "FINANCIAL OPERATIONS" is hereby supplemented by the addition of the following information:

Summary and Comparison of Operating Results (Budgetary Basis) – Fiscal 2006-2010

The table below shows the City's legally adopted General Fund budget for fiscal 2010, together with budgetary actual results for fiscal 2006 through 2009. In accordance with state law and regulations, the City's legally adopted General Fund budget as shown below is prepared on a "budgetary basis" instead of accounting principles generally accepted in the United States of America ("GAAP"). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the General Fund that GAAP records in separate funds, and "budgetary" records as an expenditure any amount raised to cover a prior year deficit, and as a revenue any available funds raised from prior year surpluses, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures.

**Fiscal 2010 Budget Compared to
Fiscal 2006, Fiscal 2007, Fiscal 2008 and Fiscal 2009 Actual Results
General Fund—Budgetary Basis
(\$ in millions)***

	Fiscal 2006 Actual Results	Fiscal 2007 Actual Results	Fiscal 2008 Actual Results	Fiscal 2009 Actual Results	Fiscal 2010 Budget ⁽¹⁾
Revenues:					
Recurring Revenue					
Property Taxes	\$ 1,208.2	\$ 1,270.8	\$ 1,334.6	\$ 1,400.7	\$ 1,460.6
Overlay Reserve ⁽²⁾	(40.8)	(46.6)	(39.1)	(35.4)	(35.6)
Excises	89.7	80.2	92.3	106.9	79.9
Fines	68.0	67.4	67.7	70.4	77.7
Interest on Investments	30.0	435	39.5	17.8	12.8
Payments in Lieu of Taxes	32.1	32.4	31.4	34.0	34.0
Urban Redevelopment Chapter 121A	65.1	63.9	64.5	65.5	65.8
Misc. Department Revenue	44.5	53.6	59.5	71.6	57.0
Licenses and Permits	38.8	41.4	47.6	41.0	36.1
Penalties & Interest	9.2	8.7	8.5	7.8	8.3
Available Funds	3.1	3.2	12.1	14.2	17.1
State Aid ⁽³⁾	464.6	483.0	493.3	454.4	410.3
Teachers' Pension Reimbursement	85.2	93.3	105.4	118.8	118.8
Total Recurring Revenue	\$ 2,097.6	\$ 2,194.7	\$ 2,317.4	\$ 2,367.6	\$ 2,342.8
Non-Recurring Revenue ⁽⁴⁾	6.7	7.5	25.7	35.0	51.0
Total Revenues	\$ 2,104.3	\$ 2,202.2	\$ 2,343.1	\$ 2,402.6	\$ 2,393.8
Expenditures:					
Departmental Expenditures					
City Departments	\$ 891.9	\$ 936.7	\$ 979.2	\$ 1002.4	\$ 962.4
Boston Public Health Commission	61.3	63.8	68.2	69.4	70.0
School Department	717.8	747.5	795.5	810.0	817.9
Collective Bargaining Reserve	-	10.0	11.8	16.9	16.1
OPEB Stabilization Fund	-	-	20.0	25.0	20.0
Total Department Expenditures	\$ 1,671.0	\$ 1,758.0	\$ 1,874.7	\$ 1,923.7	\$ 1,886.3
Fixed Costs					
Pensions ⁽⁵⁾	\$ 186.3	\$ 192.9	\$ 202.9	\$ 213.2	\$ 227.9
Debt Service ⁽⁶⁾	112.8	109.6	115.8	119.4	131.5
State Assessments	114.3	119.9	128.3	137.7	143.6
Suffolk County Sheriff	4.5	4.4	4.5	4.3	4.3
Reserve	1.5	2.2	1.1	0.0	0.0
Total Fixed Costs	\$ 419.4	\$ 429.0	\$ 452.6	\$ 474.7	\$ 507.4
Total Recurring Expenditures	\$ 2,090.4	\$ 2,187.0	\$ 2,327.3	\$ 2,398.5	\$ 2,393.8
Excess of Revenues Over Expenditures	\$ 13.9	\$ 15.2	\$ 15.8	\$ 4.1	\$ 0.0

* Columns may not add due to rounding.

- (1) Represents the budget at the time of adoption by the City Council on June 24, 2009 and signed by the Mayor on June 29, 2009 plus supplemental appropriations.
- (2) If the City's reserves for abatements prove at the end of the fiscal year to be insufficient to cover the City's abatement liability, the City is required to raise in the following year's tax rate an amount sufficient to generate additional reserves to cover the shortfall. In fiscal 2010, the City has reserved 2.5% of the net levy for abatements.
- (3) Fiscal 2009 State Aid does not include \$23.3 million paid to the City as special revenue from American Recovery and Reinvestment Act (ARRA) funds after state-funded education aid was reduced by the same amount.
- (4) Non-recurring revenue in fiscal 2008 and 2010 represent a portion of the proceeds from the Surplus Property Fund (\$5.7 million and \$6.0 million, respectively) and in 2006, 2007, 2008, 2009 and 2010 Budgetary Fund Balance (\$6.7 million, \$7.5 million, \$20.0 million, \$35 million and \$45 million, respectively). On March 20, 2009, the Massachusetts Department of Revenue certified the amount of Budgetary Fund Balance available for appropriation as of July 1, 2008 as \$121.2 million; \$45 million of that \$121.2 million is being appropriated in fiscal 2010.
- (5) Excludes noncontributory pensions and annuities that are included in departmental expenditures. The amount of such non-contributory pensions and annuities equaled \$4.6 million, \$4.6 million, \$4.1 million \$4.1 million and \$4.1 million, respectively in fiscal 2006, 2007, 2008, 2009 and 2010.
- (6) The debt service amount is derived from principal and interest, less certain offsetting revenues. The revenues utilized to offset debt for budgetary and tax rate setting purposes vary from those used in the table "Debt Service Requirements-Fiscal 2004-2008." Appendix A, page A-30. Fiscal 2009 GAAP numbers are expected to be available in December 2009.

Source: City of Boston Office of Budget Management and Auditing Department.

The Information contained under the caption “FINANCIAL OPERATIONS – Summary and Comparison of Operating Results (GAAP Basis) – Fiscal 2004-2008” is hereby supplemented by the addition of the following information:

Summary and Comparison of Operating Results (Budgetary Basis) – Fiscal 2009

During fiscal year 2009, the City’s revenues increased by 2.54%. The City’s largest sources of tax revenue were property taxes, excise tax, and payments in lieu of taxes, totaling \$1.57 billion or 65.41% of total revenue. Property taxes increased by \$69.8 million, representing a positive change of 5.4% over fiscal year 2008. Excise taxes (excluding motor vehicle) increased by \$23.2 million, a 28.3% increase over the prior year. The primary factors for this increase in tax revenue were a change in property tax commitments and growth in aircraft fuel excise and hotel room receipts. In fiscal year 2009 there was a large decrease in revenue from the state, with the City receiving \$25.5 million less than in fiscal 2008 (a 4.25% loss). This number is further skewed by an increase in pensions for retired BPS teachers. When this increase is not taken into account, the city actually experienced a \$38.9 million decrease in aid from the Commonwealth. However, it should be noted that the majority of this decrease in general fund state aid is the result of a decision by the Commonwealth to reduce the general fund education aid by \$23.3 million and replace it with a special revenue grant of the same amount. The source of funding for the grant was the Commonwealth’s American Recovery and Reinvestment Act (ARRA) stabilization fund. These funds will be reported as special revenue funds.

Overall, fiscal year 2009 expenditures increased over the previous year by 3.06% or \$71.2 million. The largest expenses were for schools (\$810.0 million), public safety (\$504.7 million), pension costs (\$217.4 million), other employee benefits (\$195.6 million), state and district assessments (\$142.1 million), debt service (\$119.3), and public works (\$112.4 million). Schools realized an expenditure increase of \$14.5 million (1.83%), while public safety realized an increase of \$9.3 million (1.9%) over last year. This was primarily due to an increase in teacher salaries and police officer salaries, respectively. Other employee benefits saw a \$4.6 million (2.4%) increase due to rising premiums and claims for health benefits and insurance. State and district assessments saw an increase primarily because of the rising costs associated with MBTA and charter school assessments. These two items realized a combined \$9.7 million increase for fiscal year 2009. It should be noted that fiscal year 2009 general fund expenditures for schools are \$23.3 million lower than expected as a result of the general fund state aid change explained above. Expenditures of \$23.3 million which were budgeted as general fund expenditures were funded with the state grant and will be reported as special revenue expenditures.

The General Fund’s equity balance as of June 30, 2009 on a GAAP basis are expected to be available in December 2009.

The Information contained under the caption “FINANCIAL OPERATIONS” is hereby supplemented by the addition of the following information:

Fiscal 2010 Budget

The following is a summary of the City’s fiscal 2010 budget on a budgetary accounting basis. The figures cited are from the fiscal 2010 budget adopted by the City Council on June 24, 2009 and signed by the Mayor on June 29, 2009, plus supplemental appropriations to date of issue of this document.

Expenditures

In fiscal 2010, the City's budgeted expenditures total \$2.39 billion including direct expenditures for departmental services and fixed expenses, representing a decrease of \$4.8 million or 0.2% from fiscal 2009 actual expenditures. Budgeted fiscal 2010 departmental expenditures compare with actual fiscal 2009 expenditures as follows: City Departments decreased \$40.1 million or 4.0%; the Public Health Commission increased \$0.6 million or 0.8%; and the School Department increased \$7.9 million or 1.0%; Collective Bargaining Reserve decreased \$0.8 million or 4.5%; and the appropriation to the OPEB Stabilization Fund decreased \$5.0 million or 20.0%. Budgeted fixed expenses for fiscal 2010 compare with fiscal 2009 actual expenses as follows: Pensions increased \$14.7 million or 6.9%; Debt Service increased \$12.1 million or 10.2%; State Assessments increased \$5.9 million or 4.3%; and City costs for the Office of the Suffolk County Sheriff remained level. The appropriation for the Suffolk County Sheriff is treated as a mandatory expenditure included in Fixed Costs because it is required by, and calculated in accordance with, state law. See "The City—Principal Government Services—Office of the Suffolk County Sheriff."

Factors contributing to the cost decreases include elimination of positions and controlled hiring, reductions in discretionary non-personnel spending, cost shifting to external resources from the American Recovery and Reinvestment Act (ARRA). Additionally, costs were contained with wage deferral agreements with unions, negotiation of health insurance premiums and service contracts, debt re-financing and capital spending deferrals and operational changes.

Revenues

Budgeted revenues for fiscal 2010 equal \$2.39 billion, a decrease of \$8.8 million or 0.4% from fiscal 2009 actual revenues. Selected fiscal 2010 budgeted revenues compare with fiscal 2009 actual revenues as follows: the Gross Property Tax Levy (including new growth) increased \$59.9 million or 4.3%; Excises decreased \$27.0 million or 25.2%; Interest on Investments decreased \$5.1 million or 28.5%; Departmental revenues decreased \$14.5 million or 20.3%; Licenses and Permits decreased \$4.9 million or 12.1%; Available Funds from parking meter and cemetery fees increased \$2.9 million or 20.4%; State Aid decreased \$44.1 million or 9.7%; and Non-Recurring Revenue increased by \$10.0 million or 45.7%.

The Property Tax, the City's largest source of revenue, has become increasingly important to the City's recent revenue growth given the minimal recent growth of state aid to the City and in particular the steep reduction in fiscal 2010. Net Property tax revenues are expected to increase \$59.7 million or 4.4% in fiscal 2010 after having increased by over \$56 million and at least 4.9% in each fiscal year between 2005 and 2009. The near-term outlook for the City's property tax levy is one of continued stable growth.

The decrease in Excises is across all revenues in this category and a direct result of the global economic crisis that began in the fall of 2008 and its effect on auto sales and both business and leisure travel. Aircraft fuel excise receipts in particular had been exceedingly high due to high fuel prices which have recently declined just as travel has declined as well. (See "City Revenues—Excise Revenues.") Subsequent to the adoption of the FY10 budget, the City adopted a new local option meals tax and an additional hotel excise tax both effective October 1, 2009. These additional revenues, estimated at approximately \$18 million for a partial year, have not been appropriated. The decrease in Interest on Investment is based on action by the Federal Reserve to reduce its target federal funds rate. The decrease in Licenses & Permits is due to expected lower building permit activity associated with a very slow or declining real estate market. The increase in Available Funds is due to projected increased use of Parking Meter funds. The decrease in State Aid is due to decreases in both general government aid and school aid that began with mid-year reductions in fiscal 2009 (\$22.9 million) and continued in the fiscal 2010 state budget.

The increase in Non-Recurring Revenue is due to an additional \$10.0 million in Budgetary Fund Balance. The total amount of Budgetary Fund Balance available for appropriation was certified by the Massachusetts Department of Revenue on March 20, 2009 as \$121.2 million. The FY10 budget appropriates \$45 million of that \$121.2 million. Of the \$45 million appropriated, \$20 million will be directed to the OPEB reserve (for a discussion of OPEB, see "Employee Benefits – Other Post Employment Benefits") and \$25.0 million to support general government operations. In addition, \$6.0 million in Surplus Property funds will also be used for operations, but specifically those related to housing and the City's self-insurance reserve account. Budgetary Fund Balance is available for appropriation after certification of its value by the Massachusetts Department of Revenue. Fiscal 2010 becomes the sixth year of use of this reserve since fiscal 1992.

The Information contained under the caption “CITY INDEBTEDNESS – General Obligation Debt” is hereby supplemented by the addition of the following information:

General Obligation Debt

On June 30, 2009, the City had outstanding approximately \$925.0 million of general obligation long-term bonds, all of which bear fixed rates of interest. On October 1, 2009, the City had approximately \$912.2 million of bonds outstanding.

Debt Limit

All debt of the City requires the authorization of the City Council and approval of the Mayor. If the Mayor vetoes a loan order passed by the City Council, the charter of the City provides that the loan order is void and may not be passed over the Mayor’s veto. Authorization of bonds under a loan order of the City Council includes, unless otherwise provided, the authorization to issue temporary notes in anticipation of such bonds.

The statutory debt limit for the City consists of a debt limit and a double debt limit. The debt limit is 5%, and the double debt limit is 10%, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Biannually, prior to January 31st, the Commissioner of Revenue establishes a final equalized valuation which is the basis for determining the debt limit for the following two-year period or until another equalization has been established. The equalized valuation of taxable property in the City established by the Commissioner of Revenue in January 2009 equals \$105.88 billion. Based on the current equalized valuation, the City’s debt limit equals approximately \$5.29 billion, and its double debt limit equals \$10.59 billion.

The City may authorize debt up to its debt limit without state approval. The City may authorize debt over the debt limit up to the double debt limit with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer and Receiver General, the State Auditor, the Attorney General and the Director of Accounts. As of June 30, 2009, the City had outstanding debt of \$737.9 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$538.1 million. As of October 1, 2009, the City had outstanding debt of \$729.5 million subject to the debt limit, and authorized but unissued debt subject to the debt limit of \$586.5 million. Based on the City’s current debt limit of \$5.29 billion, the City had the capacity to authorize an additional \$3.98 billion of debt as of October 1, 2009.



CITY OF BOSTON, MASSACHUSETTS

Basic Financial Statements and Required Supplementary Information

June 30, 2008

(With Independent Auditors' Report Thereon)

CITY OF BOSTON, MASSACHUSETTS

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KPMG LLP
99 High Street
Boston, MA 02110-2371

Telephone 617 988 1000
Fax 617 988 0800
Internet www.us.kpmg.com

Independent Auditors' Report

The Honorable Mayor and City Council
City of Boston, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston (the City), Massachusetts, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of certain entities, which represent 2.5% and 3.4% of the assets and revenues, respectively, of the aggregate remaining fund information and 25.7% and 24.0% of the assets and revenues, respectively, of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion on the financial statements, insofar as it relates to the aggregate remaining fund information and the discretely presented component units and their effects on the governmental and fiduciary activities, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. The financial statements of the permanent funds and private-purpose trust funds were not audited in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Boston, Massachusetts, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with U.S. generally accepted accounting principles.

As described in notes 12 and 11(h), the City, in 2008, implemented Governmental Accounting Standards Board (GASB) Statements Nos. 45 and 50, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and *Pension Disclosures*, respectively.



In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 3 through 15 and the schedules of funding progress and employers' contributions on page 69 are not a required part of the basic financial statements, but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

Boston, Massachusetts
December 15, 2008

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

The City of Boston (the City) provides this Management's Discussion and Analysis to present additional information to the readers of the City's basic financial statements. This narrative overview and analysis of the financial activities of the City is for the fiscal year ended June 30, 2008. Readers are encouraged to consider this information in conjunction with the additional information that is furnished in the City's Comprehensive Annual Financial Report (CAFR).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information regarding historical pension and other postemployment benefit plan information. These components are described below:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the City – the *Government-Wide Financial Statements* and the *Fund Financial Statements*. These financial statements also include the *Notes to the Financial Statements* that explain some of the information in the financial statements and provide more detail.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the City's operations in a manner similar to a private-sector business. The statements provide both short-term and long-term information about the City's financial position, which assist in assessing the City's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal year even if cash involved has not been received or paid. The government-wide financial statements include two statements:

The *Statement of Net Assets* presents all of the government's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods (such as uncollected taxes and earned but unused vacation leave). This statement also presents a comparison between direct expenses and program revenues for each function of the City.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Both the above financial statements have separate sections for the three different types of city programs or activities. These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal and state grants). Most services normally associated with city government fall into this category, including general government, human services, public safety, public works, property and development, parks and recreation, library, schools, county, public health programs, state and district assessments, and debt service.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services. These business-type activities of the City include the activities related to the City's Convention Center Bond Fund and Hospital Bond Fund.

Discretely Presented Component Units – These are operations for which the City has financial accountability but function independent of the City of Boston. For the most part, these entities operate similar to private-sector businesses and the business-type activities described above.

The City's four discretely presented major component units are:

Boston Public Health Commission

Boston Redevelopment Authority

Economic Development Industrial Corporation

Trustees of the Boston Public Library

Complete financial statements of the individual component units can be obtained from their respective administrative offices. Additional information about the City's component units is presented in the notes to the financial statements.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

The *Fund Financial Statements* focus on individual parts of the city government, reporting the City's operations in more detail than the government-wide statements. All of the funds of the City can be divided into three categories. It is important to note that these fund categories use different accounting approaches and should be interpreted differently. The three categories of funds are:

1. **Governmental Fund Financial Statements** – Most of the basic services provided by the City are financed through governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on near-term inflows and outflows of spendable resources. They also focus on the balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. This approach is known as using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this approach, revenues are recorded when cash is received or when susceptible to accrual. Expenditures are recorded when liabilities are incurred and due. These statements provide a detailed short-term view of the City's finances to assist in determining whether there will be adequate financial resources available to meet the current needs of the City.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and the governmental activities. These reconciliations are presented on the page immediately following each governmental fund financial statement.

The City presents four columns in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. The City's three major governmental funds are – the General Fund, the Special Revenue Fund, and the Capital Projects Fund. All nonmajor governmental funds are combined in the "Other Governmental Funds" column on these statements. The governmental fund financial statements can be found immediately following the government-wide statements.

Of the City's governmental funds, the General Fund is the only fund for which a budget is legally adopted. The *Statement of Revenues and Expenditures – Budgetary Basis* is presented on page 24. This Statement provides a comparison of the original and final budget and the actual expenditures for the current and prior year.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

In accordance with state law and regulations, the City's legally adopted general fund budget is prepared on a "budgetary" basis instead of U.S. generally accepted accounting principles (GAAP). Among the key differences between these two sets of accounting principles are that "budgetary" records property tax as it is levied, while GAAP records it as it becomes susceptible to accrual, "budgetary" records certain activities and transactions in the general fund that GAAP records in separate funds, and "budgetary" records any amount raised that covers a prior year deficit as an expenditure, and any available funds raised from prior year surpluses as a revenue, while GAAP ignores these impacts from prior years. The difference in accounting principles inevitably leads to varying results in excess or deficiency of revenues over expenditures. Additional information and a reconciliation of "budgetary" to GAAP statements is provided in note 4 to the financial statements.

2. **Proprietary Funds Financial Statements** – These funds are used to show activities that operate more like those of commercial enterprises. Because these funds charge fees for services provided to outside customers including local governments, they are known as enterprise funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. No reconciliation is needed between the government-wide financial statements for business-type activities and the proprietary fund financial statements.

The basic proprietary funds financial statements can be found immediately following the governmental fund financial statements.

3. **Fiduciary Funds Financial Statements** – These funds are used to account for resources held for the benefit of parties outside the City government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. They use the accrual basis of accounting.

The City's fiduciary funds are the Employee Retirement Fund (the State-Boston Retirement System), which accounts for the transactions, assets, liabilities, and net assets of the City employees' pension plan, and the Private Purpose Trust Funds, which includes money held and administered by the City on behalf of third parties.

The fiduciary funds financial statements can be found immediately following the proprietary fund financial statements.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the Government-Wide and the Fund Financial Statements. The Notes to the Financial Statements can be found immediately following the Fiduciary Funds Financial Statements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Required Supplementary Information

The basic financial statements are followed by a section of required supplementary information, which includes a schedule of funding progress and a schedule of employer contributions for the State-Boston Retirement System as well as the schedule of funding progress for the City's other post-employment benefit plan.

Government-Wide Financial Analysis

This analysis is based on the statement of net assets and the statement of activities found on pages 17 through 19 of the financial statements.

Government-Wide Highlights

Net Assets – Primary Government – The total assets of the City exceeded its liabilities at fiscal year ending June 30, 2008 by \$924.3 million (presented as net assets). Of this amount, \$354.9 million was reported as "unrestricted net assets". Unrestricted net assets represent the amount available to be used to meet the City's ongoing obligations to citizens and creditors.

Changes in Net Assets – Primary Government – The City's total net assets decreased by \$164.9 million in fiscal year 2008. Net assets of governmental activities decreased by \$183.9 million, while net assets of the business-type activities increased by \$19.0 million.

Net Assets

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City's combined net assets (governmental and business-type activities) totaled \$924.3 million at the end of 2008, compared to \$1.09 billion at the end of the previous year.

The components of net assets are comprised of the following: the investment in capital assets such as land, buildings, equipment, and infrastructure (road, bridges, and other immovable assets), less any related debt used to acquire that asset that is still outstanding – this amount is \$334.5 million indicating that the net book value of the City's capital assets exceeds the amount of capital debt outstanding. The City uses these capital assets to provide services to citizens; consequentially, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

A portion of the City's governmental activities net assets (25.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. Internally imposed designations of resources are not presented as restricted net assets. Part of the unrestricted net assets (approximately \$101.0 million) represents the receivable from the Massachusetts School Building Authority (MSBA) for the reimbursement of bonded school construction costs. The payments to be received from the MSBA coincide with the City's future debt service payments. In fiscal 2009, the amount to be received by the City to pay debt service is approximately \$13.2 million. Although this receivable increases unrestricted net assets, it will not affect the City's free cash position.

At the end of the current fiscal year, the City is reporting a positive balance in net assets for the government as a whole. The negative balance reported for Business-Type activities is offset by the positive balance reported for Governmental activities. The negative balance in Business-Type activities is a result of special obligation bonds outstanding at year-end. This deficit is intended to be covered by user charges, grants and lease receipts from third parties.

Net Assets – Primary Government (In thousands)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Current assets	\$ 1,445,085	1,339,700	59,398	43,523	1,504,483	1,383,223
Capital assets	1,221,717	1,126,478	—	—	1,221,717	1,126,478
Other assets	146,682	156,261	89,725	96,873	236,407	253,134
Total assets	\$ 2,813,484	2,622,439	149,123	140,396	2,962,607	2,762,835
Noncurrent liabilities	\$ 1,291,528	1,047,440	187,165	197,750	1,478,693	1,245,190
Current liabilities	546,709	415,869	12,955	12,654	559,664	428,523
Total liabilities	\$ 1,838,237	1,463,309	200,120	210,404	2,038,357	1,673,713
Invested in capital assets net of related debt	\$ 334,467	285,756	—	—	334,467	285,756
Restricted	234,902	280,949	—	—	234,902	280,949
Unrestricted	405,878	592,425	(50,997)	(70,008)	354,881	522,417
Total net assets	\$ 975,247	1,159,130	(50,997)	(70,008)	924,250	1,089,122

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Changes in Net Assets – Primary Government (In thousands)

	Governmental activities		Business-type activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 180,069	188,914	—	—	180,069	188,914
Operating grants and contributions	593,767	594,457	1,196	1,152	594,963	595,609
Capital grants and contributions	18,267	19,306	—	—	18,267	19,306
General revenues:						
Taxes:						
Property taxes, levied for general purposes	1,316,165	1,261,159	—	—	1,316,165	1,261,159
Excises	97,262	111,079	40,342	35,092	137,604	146,171
Payment in lieu of taxes	56,668	56,146	—	—	56,668	56,146
Grants and contributions not restricted	259,931	246,538	—	—	259,931	246,538
Investment income	47,072	52,528	9,796	2,180	56,868	54,708
Miscellaneous	1,531	539	—	—	1,531	539
Total revenues	2,570,732	2,530,666	51,334	38,424	2,622,066	2,569,090
Program expenses:						
General government	109,121	82,793	—	—	109,121	82,793
Human services	50,827	41,697	—	—	50,827	41,697
Public safety	908,353	730,627	—	—	908,353	730,627
Public works	148,497	125,228	—	—	148,497	125,228
Property and development	110,272	112,857	—	—	110,272	112,857
Parks and recreation	30,134	20,371	—	—	30,134	20,371
Library	47,340	45,498	—	—	47,340	45,498
Schools	1,272,997	1,187,826	—	—	1,272,997	1,187,826
Public health programs	68,718	65,439	—	—	68,718	65,439
Interest on long-term debt	31,058	28,725	—	—	31,058	28,725
Convention center	—	—	5,122	5,202	5,122	5,202
Hospital	—	—	4,201	4,979	4,201	4,979
Total program expenses	2,777,317	2,441,061	9,323	10,181	2,786,640	2,451,242
Excess (deficiency) before transfers	(206,585)	89,605	42,011	28,243	(164,574)	117,848
Loss on disposal	(298)	(3,820)	—	—	(298)	(3,820)
Transfers	23,000	20,000	(23,000)	(20,000)	—	—
Change in net assets	(183,883)	105,785	19,011	8,243	(164,872)	114,028
Net assets – beginning of year	1,159,130	1,053,345	(70,008)	(78,251)	1,089,122	975,094
Net assets – end of year	\$ 975,247	1,159,130	(50,997)	(70,008)	924,250	1,089,122

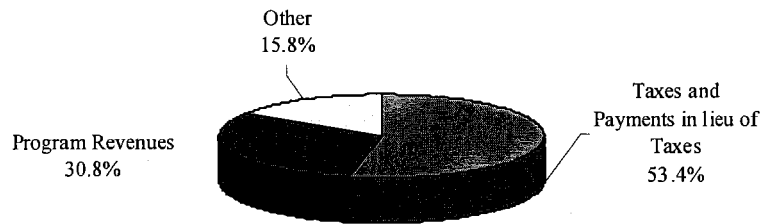
CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
Management's Discussion and Analysis

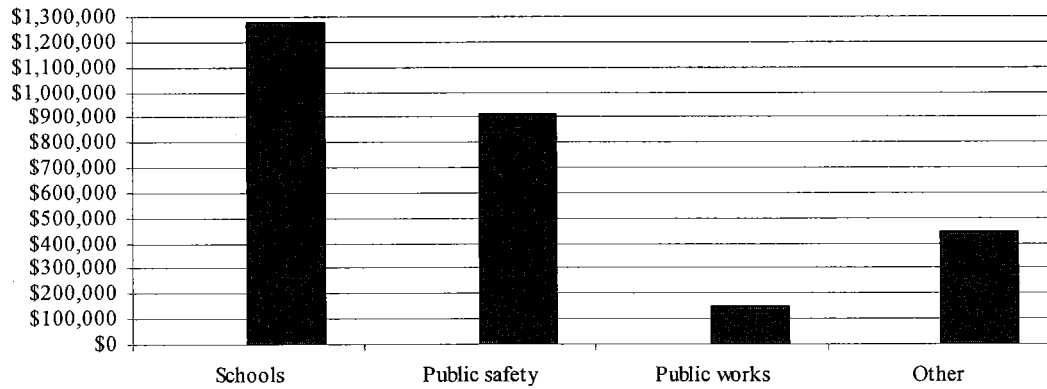
June 30, 2008

(Unaudited)

**Revenues – Governmental Activities
Fiscal Year 2008**



**Expenses – Governmental Activities
Fiscal Year 2008
(In thousands)**



CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Governmental Activities

The City's governmental activities net assets decreased by \$183.9 million over the prior fiscal year. The following net changes occurred during the course of operations in fiscal 2008: In the assets accounts, cash and investments increased by \$25.3 million, receivables increased by \$79.8 million, capital assets increased by \$95.2 million. In the liability accounts, there were increases in warrants payable of \$36.8 million, current long-term debt of \$6.9 million, unearned revenue of \$36.3 million and accrued liabilities of \$17.7 million. Additionally, a new liability of \$212.8 million relative to the City's other postemployment obligation was booked in 2008. See page 14 for a more detailed discussion.

During fiscal year 2008, the City's revenues increased by 1.6%. The City's largest sources of revenues were property taxes, excise taxes, and payment in lieu of taxes of \$1.47 billion (57.2% of total revenue) and \$792.1 million of program revenues (30.8% of total revenue). The increase in tax revenue was attributed to a change in property tax commitments and a growth in room occupancy. A rise in state aid was the source for the increase in grants and contributions not restricted. Investment income and other miscellaneous revenues totaled \$48.6 million down \$4.4 million from fiscal year 2007. The primary factor for the decrease in investment income was lower investment returns.

The increase in revenues allowed for an increase in expense categories. The City's expenses cover a range of services. The largest expenses were for schools (\$1.27 billion), public safety (\$908.4 million), public works (\$148.5 million), property and development (\$110.3 million), general government (\$109.1 million), public health programs (\$68.7 million), and human services (\$50.8 million). The primary reason behind the increased expenses for schools was an increase in salaries. Further, all categories of government experienced an increase in expenses due to the recognition of the City's OPEB expense in 2008.

In 2008, governmental activities expenses exceeded program revenues (i.e., user charges, operating grants and capital grants) by \$1.96 billion. This shortfall was covered primarily through taxes (\$1.47 billion) and unrestricted grants and contributions (\$259.9 million).

Comparative data on these revenues and expenses is itemized in the reporting of the *Changes in Net Assets – Primary Government* on page 9.

Business-Type Activities

Net assets from business-type activities increased \$19.0 million during fiscal 2008. This change in net assets resulted primarily from an increase in excise tax revenues and investment income.

Financial Analysis of the City's Fund Statements

This analysis is based on the Governmental and Proprietary Fund Financial Statements on pages 20 through 27.

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Fund Highlights

Governmental Funds – Fund Balances – As of the close of fiscal year 2008, the City's governmental funds reported a combined ending fund balance of \$1.04 billion, an increase of \$23.0 million from the prior year. Of this total amount, \$586.4 million represents the "unreserved and undesignated fund balances" with \$553.1 million of this amount in the general fund. The increase in fund balance is largely due to an increase in tax receipts.

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's financial position at the end of the fiscal year.

General Fund – Fund Balance – The general fund is the chief operating fund of the City. The City's General Fund – Fund Balance Policy states in part to maintain a GAAP undesignated fund balance in the general fund that is 10%, or higher, of GAAP general fund operating expenditures for the fiscal year. The GAAP undesignated fund balance at the end of fiscal year 2008 was \$553.1 million, which represents approximately 25.3% of GAAP general fund operating expenditures.

However, because the City is required to follow the statutory basis of accounting rather than GAAP for determining the amount of undesignated fund balance that can be appropriated, it is the statutory (not the GAAP) fund balance that is used to calculate "free cash". Free cash is the amount of statutory fund balance in the general fund, as certified by the Commonwealth of Massachusetts' Department of Revenue, that is available for appropriation and is generated when actual revenues, on a cash basis, exceeded budgeted amounts and encumbrances are less than appropriations, or both.

The City of Boston has established the General Fund-Fund Balance Policy to ensure that the City maintains adequate levels of fund balance to mitigate current and future risks (i.e. revenue shortfalls and unanticipated expenditures). The policy in full states that the City shall maintain a GAAP undesignated fund balance in the general fund that is 10% or higher than the current fiscal year's GAAP general fund operating expenditures; and that the City shall only consider the certification of free cash (as defined by the Commonwealth of Massachusetts' Department of Revenue) in years where the appropriation of free cash shall not cause the fiscal year's GAAP undesignated fund balance to go below 10% of the fiscal year's GAAP general fund expenditures while maintaining a Budgetary Undesignated Fund Balance between 5% and 10% of Budgetary Operating Expenses.

The City shall only consider the appropriation of certified free cash to offset: (1) certain fixed costs such as pension contributions and related post-employment health benefits; and/or (2) to fund extraordinary and nonrecurring events as determined and certified by the City Auditor.

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information

Management's Discussion and Analysis

June 30, 2008

(Unaudited)

Special Revenue Fund – Fund Balance – The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for predefined purposes. The fiscal year 2008 special revenue fund balance is reported at \$190.1 million, a \$30.3 million decrease from fiscal year 2007.

Capital Projects Fund – Fund Balance – The Capital Projects Fund accounts for financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds and trust funds. The fiscal year 2008 capital projects fund deficit is \$1.0 million, a \$13.3 million decrease from fiscal year 2007. The deficit in this fund balance is the result of the \$14 million MSBA receivable for the Burke School and will be eliminated upon reimbursement of construction costs from the MSBA.

Other Governmental Funds – Fund Balance – Other Governmental Funds account for assets held by the City in permanent trust funds. The fiscal year 2008 other governmental funds fund balance is \$44.8 million, a \$3.5 million decrease from fiscal year 2007.

Proprietary Funds

The City's Proprietary Funds provide the same type of information found in the Government-Wide Financial Statements for business-type activities. This information is presented on the same basis of accounting, but in more detail.

The City's Proprietary Funds net deficit for fiscal year 2008 was \$51.0 million. The net deficit in the Proprietary Funds is a result of the Convention Center special obligation bonds outstanding at year-end.

Budgetary Highlights

The general fund budgetary highlights include ending fiscal year 2008 with a \$15.8 million dollar surplus. This represents the City's 23rd consecutive year with a balanced budget. Changes to the original budget resulted in an increase of \$9.9 million to the overall budget. These supplemental appropriations were primarily for salaries and wages within the Boston Public Schools Department. Funding for the supplemental appropriations consisted of the Retired Teachers Pension payments of \$4.7 million and building infrastructure improvements and permits of \$4.6 million. During the year, revenues exceeded budgetary estimates, thus eliminating the need to draw from existing fund balance. The departmental and other revenue favorable variance of \$14.4 million was primarily comprised of \$8.0 million in reimbursements for fringe and pension costs from grants and \$2.3 million increase in Municipal Medicaid reimbursement. The \$7.0 million favorable variance in Commonwealth of Massachusetts was driven by an additional \$7.4 million of revenue from the state for Retired Teachers Pension. The "other available funds" fell short of fiscal year 2008 receipts by \$5.0 million due to recording less actual "free cash" than budgeted. Police and Fire Department overtime expense, exceeding the budget by \$16.5 million, was the main factor in Public Safety's overspending.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental activities, as of June 30, 2008, has a net book value of \$1.22 billion, made up of costs totaling \$2.41 billion less accumulated depreciation of \$1.19 billion. This

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investment in capital assets includes land, buildings, improvements, equipment, infrastructure and construction in progress. Infrastructure assets are items that are normally immovable and have value only to the City, such as roads, bridges, streets, sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the City's investment in capital assets for the current fiscal year was approximately 8.5% in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$158.5 million for the year. Most of this amount was used for the purpose of constructing or reconstructing buildings and building improvements. Depreciation charges for the year totaled \$62.9 million. Additional information on the City's capital assets can be found in note 8 of the Notes to Basic Financial Statements.

Long-Term Obligations

Debt Administration – The authority of the City to incur debt is governed by federal and state laws that restrict the amounts and purposes for which a municipality can incur debt. At year-end, the City had \$903.2 million in General Obligations Bonds principal outstanding – an increase of \$42.3 million over last year.

The key factor in this increase was the issuance of the March 1, 2008 Series A and B general obligation and refunding bonds totaling \$154.3 million. Of this amount, \$126.2 million (Series A) was new money issued for the purpose of funding various municipal capital projects and \$28.2 million (Series B) was issued for the purpose of refunding certain outstanding general obligations of the City. The Series A and B bonds were rated AA, Aa1 and AA+ by Fitch, Moody's and S&P, respectively.

General Obligation Bonds are backed by the full faith and credit of the City, including the City's power to levy additional taxes to ensure repayment of the debt. Accordingly, all general obligation debt currently outstanding has been approved by a vote of the City Council.

Notes and Leases Payable and Other Long-Term Obligations – The City's general long-term notes and leases and other long-term obligations increased by \$240.3 million, or 77.6% during the current fiscal year. The key factor, for this increase, was the implementation of Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions (OPEB)* of \$212.8 million. This is the first year the City has recorded this obligation. Additionally, leases increased by \$12.4 million due to the issuance of new equipment leases exceeding lease repayments.

Additional information on the City's long-term debt obligations can be found in note 10 of the Notes to Basic Financial Statements.

New Accounting Standards

In 2008, the City implemented Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard requires the City to recognize postemployment benefits, mainly health insurance, when earned rather than on a pay-as-you-go basis.

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In order to comply with this standard, the City hired an actuary to estimate the accrued liability and a required 2008 contribution based on the current level of benefits and an amortization period of 30 years. Based on the results of that review, the City booked an OPEB expense and an OPEB obligation of \$212.8 million.

The City's 2008 Annual Required Contribution (ARC) was \$327.8 million. Contributions against the ARC on a pay-as-you-go basis totaled \$114.9 million and do not include a \$21 million transfer to the Health Stabilization Fund which was created subsequent to year-end. The Health Stabilization Fund was established to manage and account for the City's OPEB liability.

The City also implemented GASB Statement No. 50, *Pension Disclosures*, in 2008. This new standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. This information was previously only required to be reported as required supplementary information.

Future Accounting Pronouncements

GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligation*. This statement is effective date for reporting is June 30, 2009. However, restatement of beginning net assets will be required if an obligation exists, therefore July 1, 2008 is the more accurate effective date for this statement.

This statement explains when a government would be required to report a liability in its financial statements related to cleaning up pollution or contamination. GASB 49 also establishes a probability-weighted method that a government would be required to use to determine the established amount of pollution obligation liabilities to be reported in its financial statements.

Requests for Information

This financial report is designed to provide a general overview of the City of Boston's finances for all of City of Boston's citizens, taxpayers, customers, investors and creditors. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: City of Boston, Auditing Department, Boston City Hall, Room M-4, Boston, MA 02201.

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CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2008

(In thousands)

	Primary government			Component units
	Governmental activities	Business-type activities	Total	
Assets:				
Current assets:				
Cash and investments	\$ 987,273	80	987,353	104,360
Cash and investments held by trustees	47,452	79,681	127,133	51,104
Receivables, net:				
Property taxes	19,774	—	19,774	—
Intergovernmental	239,489	—	239,489	—
Other	111,955	210	112,165	35,050
Other assets	8,313	2,427	10,740	13,783
Internal balances	23,000	(23,000)	—	—
Due from BMC	—	—	—	493
Due from primary government	—	—	—	250
Due from component units	7,829	—	7,829	—
Total current assets	<u>1,445,085</u>	<u>59,398</u>	<u>1,504,483</u>	<u>205,040</u>
Noncurrent assets:				
Intergovernmental receivables	87,798	—	87,798	—
Notes and other receivables	58,884	—	58,884	74,614
Other assets	—	—	—	119,565
Capital assets:				
Nondepreciable	29,098	—	29,098	34,863
Depreciable, net	1,192,619	—	1,192,619	47,111
Due from component units	—	89,725	89,725	—
Total noncurrent assets	<u>1,368,399</u>	<u>89,725</u>	<u>1,458,124</u>	<u>276,153</u>
Total assets	<u>2,813,484</u>	<u>149,123</u>	<u>2,962,607</u>	<u>481,193</u>
Liabilities:				
Current liabilities:				
Warrants and accounts payable	101,784	—	101,784	21,255
Accrued liabilities – current:				
Tax abatement liability	25,600	—	25,600	—
Compensated absences	45,997	—	45,997	—
Judgments and claims	43,490	—	43,490	—
Payroll and related costs	111,323	—	111,323	—
Deposits and other	60,371	2,595	62,966	2,361
Current portion of long-term debt and leases	101,629	10,360	111,989	1,145
Due to component units	250	—	250	—
Due to BMC	—	—	—	16,137
Due to primary government	—	—	—	9,323
Unearned revenue	56,265	—	56,265	5,192
Total current liabilities	<u>546,709</u>	<u>12,955</u>	<u>559,664</u>	<u>55,413</u>
Noncurrent liabilities:				
Bonds due in more than one year	845,200	187,165	1,032,365	21,214
Notes and leases payable due in more than one year	58,265	—	58,265	—
Other noncurrent liabilities	175,240	—	175,240	138,866
Other postemployment benefits obligation	212,823	—	212,823	16,536
Unearned revenue	—	—	—	40,249
Due to primary government	—	—	—	88,231
Total noncurrent liabilities	<u>1,291,528</u>	<u>187,165</u>	<u>1,478,693</u>	<u>305,096</u>
Total liabilities	<u>1,838,237</u>	<u>200,120</u>	<u>2,038,357</u>	<u>360,509</u>
Net assets:				
Investment in capital assets, net of related debt	334,467	—	334,467	50,767
Restricted for:				
Expendable trust	44,837	—	44,837	59,305
Federal and state grants	190,065	—	190,065	—
Unrestricted	405,878	(50,997)	354,881	10,612
Total net assets	<u>\$ 975,247</u>	<u>(50,997)</u>	<u>924,250</u>	<u>120,684</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2008

(In thousands)

Functions/programs	Expenses	Program revenues		
		Charges for services	Operating grants and contributions	Capital grants and contributions
Primary government:				
Governmental activities:				
General government	\$ 109,121	27,395	3,219	2,387
Human services	50,827	31	11,694	—
Public safety	908,353	127,460	151,655	260
Public works	148,497	2,564	34	11,167
Property and development	110,272	5,035	62,451	10
Parks and recreation	30,134	321	305	2,643
Library	47,340	353	5,080	496
Schools	1,272,997	16,910	359,329	1,304
Public health programs	68,718	—	—	—
Interest on long-term debt	31,058	—	—	—
Total governmental activities	<u>2,777,317</u>	<u>180,069</u>	<u>593,767</u>	<u>18,267</u>
Business-type activities:				
Convention Center	5,122	—	1,196	—
Hospital Bonds	4,201	—	—	—
Total business-type activities	<u>9,323</u>	<u>—</u>	<u>1,196</u>	<u>—</u>
Total primary government	<u>\$ 2,786,640</u>	<u>180,069</u>	<u>594,963</u>	<u>18,267</u>
Component units:				
Boston Public Health Commission	\$ 142,025	9,335	46,056	3,564
Boston Redevelopment Authority	25,824	7,381	6,155	—
Trustees of the Public Library of the City of Boston	16,811	1,055	13,611	—
Economic Development and Industrial Corporation of Boston	34,476	14,506	15,133	—
Total component units	<u>\$ 219,136</u>	<u>32,277</u>	<u>80,955</u>	<u>3,564</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Excises				
Payments in lieu of taxes				
Grants and contributions not restricted				
Investment income				
City appropriation				
Miscellaneous				
Gain (loss) on disposal				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets – beginning of year				
Prior period adjustment				
Net assets – end of year				

See accompanying notes to basic financial statements.

Net (expense) revenue and changes in net assets			
Primary government			
Governmental activities	Business-type activities	Total	Component units
(76,120)	—	(76,120)	—
(39,102)	—	(39,102)	—
(628,978)	—	(628,978)	—
(134,732)	—	(134,732)	—
(42,776)	—	(42,776)	—
(26,865)	—	(26,865)	—
(41,411)	—	(41,411)	—
(895,454)	—	(895,454)	—
(68,718)	—	(68,718)	—
(31,058)	—	(31,058)	—
(1,985,214)	—	(1,985,214)	—
—	(3,926)	(3,926)	—
—	(4,201)	(4,201)	—
—	(8,127)	(8,127)	—
(1,985,214)	(8,127)	(1,993,341)	—
—	—	—	(83,070)
—	—	—	(12,288)
—	—	—	(2,145)
—	—	—	(4,837)
—	—	—	(102,340)
1,316,165	—	1,316,165	—
97,262	40,342	137,604	—
56,668	—	56,668	—
259,931	—	259,931	—
47,072	9,796	56,868	825
—	—	—	67,440
1,531	—	1,531	4,896
(298)	—	(298)	5,734
23,000	(23,000)	—	—
1,801,331	27,138	1,828,469	78,895
(183,883)	19,011	(164,872)	(23,445)
1,159,130	(70,008)	1,089,122	138,126
—	—	—	6,003
\$ 975,247	(50,997)	924,250	120,684

CITY OF BOSTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2008

(In thousands)

Assets	General	Special revenue	Capital projects	Other governmental funds	Total governmental funds
Cash and investments	\$ 756,652	157,774	20,979	229	935,634
Cash and investments held by trustees	—	—	2,346	45,106	47,452
Receivables, net:					
Property taxes	19,774	—	—	—	19,774
Intergovernmental	237,443	95,246	53,482	—	386,171
Departmental and other	52,263	59,167	—	208	111,638
Total receivables	309,480	154,413	53,482	208	517,583
Due from other funds	27,703	2,510	1,379	—	31,592
Due from component units	7,829	—	—	—	7,829
Total assets	<u>\$ 1,101,664</u>	<u>314,697</u>	<u>78,186</u>	<u>45,543</u>	<u>1,540,090</u>
Liabilities and Fund Balances					
Liabilities:					
Warrants and accounts payable	\$ 48,356	22,802	30,001	706	101,865
Accrued liabilities:					
Payroll and related costs	103,737	7,586	—	—	111,323
Deposits and other	15,073	30,757	192	—	46,022
Deferred revenue	127,817	58,884	48,974	—	235,675
Due to other funds	4,382	4,603	—	—	8,985
Due to component unit	250	—	—	—	250
Total liabilities	<u>299,615</u>	<u>124,632</u>	<u>79,167</u>	<u>706</u>	<u>504,120</u>
Fund balances:					
Reserved for:					
Encumbrances	32,519	46,022	79,677	159	158,377
Future appropriations	—	—	30,087	—	30,087
Unreserved:					
Designated for subsequent years' expenditures	216,429	—	—	—	216,429
Undesignated	553,101	144,043	(110,745)	—	586,399
Reported in permanent funds	—	—	—	44,678	44,678
Total fund balances	<u>802,049</u>	<u>190,065</u>	<u>(981)</u>	<u>44,837</u>	<u>1,035,970</u>
Total liabilities and fund balances	<u>\$ 1,101,664</u>	<u>314,697</u>	<u>78,186</u>	<u>45,543</u>	<u>1,540,090</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2008

(In thousands)

Total fund balance – governmental funds	\$ 1,035,970
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. These assets consist of:	
Land	25,060
Construction in progress	4,038
Land improvements	141,675
Buildings and improvements	1,632,231
Furniture and equipment	225,564
Infrastructure	407,983
Less accumulated depreciation	<u>(1,214,834)</u>
	1,221,717
Adjust deferred revenues and receivables to record revenues on an accrual basis	174,556
Internal service funds are included in the government-wide statements	49,848
Bond issuance costs are capitalized in the government-wide statements	8,313
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
General obligation bonds and notes	(938,636)
Capital leases	(36,773)
Bond issue premiums	(39,165)
Deferred bond gains (losses)	9,480
Accrued interest on bonds	(14,349)
Compensated absences	(168,316)
Landfill	(9,119)
Judgments and claims	(79,856)
Other postemployment benefits	(212,823)
Tax abatements	<u>(25,600)</u>
	(1,515,157)
Net assets of governmental activities	<u><u>\$ 975,247</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Revenues, Expenditures, and Changes in Fund Balances --
Governmental Funds
Year ended June 30, 2008
(In thousands)

	<u>General</u>	<u>Special revenue</u>	<u>Capital projects</u>	<u>Other governmental funds</u>	<u>Total governmental funds</u>
Revenues:					
Real and personal property taxes	\$ 1,316,734	—	—	—	1,316,734
Excises	115,809	—	—	—	115,809
Payments in lieu of taxes	56,667	—	—	—	56,667
Fines	67,940	150	—	—	68,090
Investment income	37,822	545	—	187	38,554
Licenses and permits	45,989	60	—	—	46,049
Departmental and other	79,030	29,596	—	3,356	111,982
Intergovernmental	493,227	342,464	14,701	—	850,392
Total revenues	<u>2,213,218</u>	<u>372,815</u>	<u>14,701</u>	<u>3,543</u>	<u>2,604,277</u>
Expenditures:					
Current:					
General government	66,927	10,084	—	4,866	81,877
Human services	29,093	9,482	—	—	38,575
Public safety	509,293	21,086	—	—	530,379
Public works	108,831	13,207	—	—	122,038
Property and development	29,876	72,806	—	—	102,682
Parks and recreation	17,418	510	—	—	17,928
Library	27,089	4,962	—	—	32,051
Schools	782,500	149,069	—	—	931,569
Public health programs	67,694	700	—	—	68,394
County	—	121,180	—	—	121,180
Judgments and claims	1,967	—	—	—	1,967
Other employee benefits	190,167	—	—	—	190,167
Retirement costs	95,193	—	—	—	95,193
State and district assessments	132,792	—	—	—	132,792
Capital outlays	9,417	2,993	170,834	—	183,244
Debt service	115,771	—	—	—	115,771
Total expenditures	<u>2,184,028</u>	<u>406,079</u>	<u>170,834</u>	<u>4,866</u>	<u>2,765,807</u>
Excess (deficiency) of revenues over expenditures	<u>29,190</u>	<u>(33,264)</u>	<u>(156,133)</u>	<u>(1,323)</u>	<u>(161,530)</u>
Other financing sources (uses):					
Long-term debt and capital leases issued	—	5,050	148,460	—	153,510
Refunding bonds issued	—	—	28,155	—	28,155
Payments to escrow agent	—	(455)	(28,110)	—	(28,565)
Premiums on long-term debt issued	—	8,402	—	—	8,402
Transfers in (out)	40,810	(10,000)	(5,669)	(2,141)	23,000
Total other financing sources (uses)	<u>40,810</u>	<u>2,997</u>	<u>142,836</u>	<u>(2,141)</u>	<u>184,502</u>
Net change in fund balances	<u>70,000</u>	<u>(30,267)</u>	<u>(13,297)</u>	<u>(3,464)</u>	<u>22,972</u>
Fund balance -- beginning of year	<u>732,049</u>	<u>220,332</u>	<u>12,316</u>	<u>48,301</u>	<u>1,012,998</u>
Fund balance -- end of year	<u>\$ 802,049</u>	<u>190,065</u>	<u>(981)</u>	<u>44,837</u>	<u>1,035,970</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities

Year ended June 30, 2008

(In thousands)

Net change in fund balances – total governmental funds	\$ 22,972
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital outlays (\$158,485) exceeded depreciation expense (\$62,948) and disposals (\$298)	95,239
Tax revenues in the statement of activities that are not reported as revenues in the governmental funds	(11,794)
Proceeds of long-term debt (\$181,665) increase long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Repayment of bond, note and lease principal (\$97,162) and payment to the escrow agent (\$28,565) are expenditures in the governmental funds, but reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceed repayments and escrow payments	(55,938)
Bond premiums net (\$5,290) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Deferred losses on refunding (\$2,089) decrease long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$229) are expenditures in the governmental funds, but are deferred assets in the statement of assets. This is the amount by which premiums and deferred losses on refundings exceeded issuance costs	(7,150)
Intergovernmental revenues decrease receivables on the statement of net assets, but are included in the operating statement of governmental funds	(10,092)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the increase in liabilities for judgments and claims and workers' compensation(\$8,632), compensated absences (\$4,842) and other postemployment benefits (\$212,823) offset by a decrease in liabilities for interest payable (\$473) and the landfill liability (\$262)	(225,562)
Net income from the internal service fund which is presented in the statement of activities, but not in the governmental funds	8,442
Change in net assets of governmental activities	\$ <u>(183,883)</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Revenues and Expenditures – Budgetary Basis
General Fund – Budget and Actual

Year ended June 30, 2008
(with comparative actual amounts for 2007)

(In thousands)

	<u>Original budget</u>	<u>2008 Final budget</u>	<u>Actual</u>	<u>Variance</u>	<u>2007 Actual</u>
Revenues and other available funds:					
Real and personal property taxes, net	\$ 1,295,152	1,295,152	1,295,460	308	1,224,171
Excises	124,575	124,575	131,558	6,983	120,234
Commonwealth of Massachusetts	587,069	591,739	598,747	7,008	576,372
Departmental and other revenue	52,428	52,987	67,379	14,392	62,676
Fines	67,760	67,760	67,391	(369)	66,975
Payments in lieu of taxes	52,956	52,956	56,667	3,711	56,146
Investment income	37,500	37,500	39,512	2,012	43,471
Licenses and permits	37,685	42,329	47,577	5,248	41,432
Other available funds	43,810	43,810	38,818	(4,992)	10,721
Total revenues and other available funds	2,298,935	2,308,808	2,343,109	34,301	2,202,198
Expenditures:					
General government	104,937	104,150	102,837	1,313	78,366
Human services	28,080	29,118	29,116	2	26,394
Public safety	478,656	478,915	495,425	(16,510)	477,595
Public works	102,491	103,016	107,629	(4,613)	98,748
Property and development	29,173	31,519	31,453	66	33,991
Parks and recreation	16,923	17,461	17,374	87	16,707
Library	29,246	29,603	29,601	2	28,550
Schools	782,784	795,498	795,488	10	747,462
Boston Public Health Commission	66,554	68,195	68,195	—	63,798
Judgments and claims	3,500	3,500	3,500	—	7,107
Other employee benefits	190,952	191,070	191,032	38	177,087
Retirement costs	207,105	207,105	207,049	56	197,574
State and district assessments	135,658	133,353	132,792	561	109,364
Debt requirements	122,876	116,305	115,771	534	124,243
Total expenditures	2,298,935	2,308,808	2,327,262	(18,454)	2,186,986
Excess of revenues and other available funds over expenditures	\$ —	—	15,847	15,847	15,212

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2008

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Assets:				
Current assets:				
Cash and investments	\$ 80	—	80	51,640
Cash and investments held by trustees	58,845	20,836	79,681	—
Receivables, net	210	—	210	317
Total current assets	<u>59,135</u>	<u>20,836</u>	<u>79,971</u>	<u>51,957</u>
Noncurrent assets:				
Due from other funds	—	—	—	493
Due from component units	—	89,725	89,725	—
Other assets	1,182	1,245	2,427	4,856
Total noncurrent assets	<u>1,182</u>	<u>90,970</u>	<u>92,152</u>	<u>5,349</u>
Total assets	<u>60,317</u>	<u>111,806</u>	<u>172,123</u>	<u>57,306</u>
Liabilities:				
Current liabilities:				
Warrants and accounts payable	—	—	—	22
Accrued liabilities	—	—	—	7,436
Due to other funds	23,000	—	23,000	—
Accrued interest payable	812	1,783	2,595	—
Current portion of long-term debt	3,400	6,960	10,360	—
Total current liabilities	<u>27,212</u>	<u>8,743</u>	<u>35,955</u>	<u>7,458</u>
Noncurrent liabilities:				
Special obligation bonds	97,085	—	97,085	—
Revenue bonds	—	90,080	90,080	—
Total noncurrent liabilities	<u>97,085</u>	<u>90,080</u>	<u>187,165</u>	<u>—</u>
Total liabilities	<u>124,297</u>	<u>98,823</u>	<u>223,120</u>	<u>7,458</u>
Net assets:				
Unrestricted	<u>(63,980)</u>	<u>12,983</u>	<u>(50,997)</u>	<u>49,848</u>
Total net assets	\$ <u>(63,980)</u>	<u>12,983</u>	<u>(50,997)</u>	<u>49,848</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2008

(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Operating revenues:				
Contributions	\$ —	—	—	97,225
State aid – pledged for debt service	40,342	—	40,342	—
Total operating revenues	<u>40,342</u>	<u>—</u>	<u>40,342</u>	<u>97,225</u>
Operating expenses:				
Health benefits	—	—	—	88,783
Total operating expenses	<u>—</u>	<u>—</u>	<u>—</u>	<u>88,783</u>
Operating income	<u>40,342</u>	<u>—</u>	<u>40,342</u>	<u>8,442</u>
Nonoperating revenue (expense):				
Intergovernmental – state grants	1,196	—	1,196	—
Investment earnings – pledged for debt service	—	8,506	8,506	—
Investment earnings – other	1,290	—	1,290	—
Interest expense	<u>(5,122)</u>	<u>(4,201)</u>	<u>(9,323)</u>	<u>—</u>
Total nonoperating expense	<u>(2,636)</u>	<u>4,305</u>	<u>1,669</u>	<u>—</u>
Income before transfers	37,706	4,305	42,011	8,442
Transfer to general fund	<u>(23,000)</u>	<u>—</u>	<u>(23,000)</u>	<u>—</u>
Change in net assets	14,706	4,305	19,011	8,442
Total net assets – beginning of year	<u>(78,686)</u>	<u>8,678</u>	<u>(70,008)</u>	<u>41,406</u>
Total net assets – end of year	\$ <u><u>(63,980)</u></u>	<u><u>12,983</u></u>	<u><u>(50,997)</u></u>	<u><u>49,848</u></u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS
Statement of Cash Flows – Proprietary Fund Types
Year ended June 30, 2008
(In thousands)

	Enterprise funds			
	Convention center bonds	Hospital revenue bonds	Total	Internal service
Cash flows from operating activities:				
Cash received from other governments	\$ 40,132	7,148	47,280	—
Cash received from employees and employee:	—	—	—	97,367
Cash paid to vendors	—	—	—	(89,144)
Net cash provided by operations	<u>40,132</u>	<u>7,148</u>	<u>47,280</u>	<u>8,223</u>
Cash flows from noncapital financing activities:				
Grants received from state	1,196	—	1,196	—
Interest paid on debt	(5,088)	(4,413)	(9,501)	—
Transfers to other funds	(20,000)	—	(20,000)	—
Repayment of long-term debt	(3,230)	(6,690)	(9,920)	—
Net cash used in noncapital financing activities	<u>(27,122)</u>	<u>(11,103)</u>	<u>(38,225)</u>	<u>—</u>
Cash flows from investing activities:				
Investment income	1,290	8,506	9,796	—
Net cash provided by investing activities	<u>1,290</u>	<u>8,506</u>	<u>9,796</u>	<u>—</u>
Increase in cash and cash equivalents	14,300	4,551	18,851	8,223
Cash and cash equivalents, beginning of year	44,625	16,285	60,910	43,417
Cash and cash equivalents, end of year	<u>\$ 58,925</u>	<u>20,836</u>	<u>79,761</u>	<u>51,640</u>
Reconciliation of operating income to cash provided by operating activities:				
Operating income	\$ 40,342	—	40,342	8,442
Reconciliation of operating income to net cash provided by operating activities:				
Changes in operating assets and liabilities:				
Accounts receivable	(210)	—	(210)	(34)
Other assets	—	—	—	(946)
Due from component units	—	7,148	7,148	176
Accounts payable and accrued liabilities	—	—	—	585
Net cash provided by operating activities	<u>\$ 40,132</u>	<u>7,148</u>	<u>47,280</u>	<u>8,223</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Fiduciary Net Assets – Fiduciary Funds

June 30, 2008

(Except for Employee Retirement Plan, which is as of December 31, 2007)

(In thousands)

	Employee retirement plan	Private purpose trusts	Agency funds
Assets:			
Cash and cash equivalents	\$ 24,834	86,099	5,834
Receivables:			
Interest and dividends	16,587	—	—
Securities sold	49,756	—	—
Employer contributions	101,386	—	—
Other	16,032	2,279	—
Total receivables	183,761	2,279	—
Investments, at fair value:			
Short-term:			
Domestic	34,882	—	—
International	16,056	—	—
Equity:			
Domestic	1,778,590	—	—
International	933,109	—	—
Fixed-income:			
Domestic	623,902	—	—
International	244,266	—	—
Real estate	398,481	—	—
Venture capital funds	477,191	—	—
Total investments	4,506,477	—	—
Securities lending short-term collateral investment pool	382,515	—	—
Total assets	5,097,587	88,378	5,834
Liabilities:			
Accounts payable	12,372	1,722	—
Securities purchased	74,718	—	—
Collateral held on securities lending	382,515	—	—
Refunds payable and other	194	—	5,834
Total liabilities	469,799	1,722	\$ 5,834
Net assets – held in trust for pension benefits and other purposes	\$ 4,627,788	86,656	

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Statement of Changes in Fiduciary Net Assets –
Fiduciary Funds

Year ended June 30, 2008

(Except for Employee Retirement Plan, which is for the year ended December 31, 2007)

(In thousands)

	Employee retirement plan	Private purpose trusts
Additions:		
Contributions:		
Employers	\$ 233,897	—
Employees	118,332	—
Donations and other	—	20,025
Total contributions	<u>352,229</u>	<u>20,025</u>
Investment earnings:		
Net appreciation in the fair value of investments	328,256	—
Interest and dividends	99,481	1,883
Less investment expenses	<u>(18,319)</u>	<u>—</u>
Net investment earnings	<u>409,418</u>	<u>1,883</u>
Securities lending activities:		
Securities lending income	23,975	—
Less borrower rebates and fees	<u>(22,154)</u>	<u>—</u>
Net income from securities lending activities	<u>1,821</u>	<u>—</u>
Total net investment income	411,239	1,883
Intergovernmental	<u>10,608</u>	<u>—</u>
Total additions	<u>774,076</u>	<u>21,908</u>
Deductions:		
Benefits	381,962	—
Reimbursement to other systems	8,443	—
Refunds of contributions	17,132	—
Administrative expenses and other	<u>4,746</u>	<u>22,343</u>
Total deductions	<u>412,283</u>	<u>22,343</u>
Change in net assets	361,793	(435)
Net assets, beginning of year	<u>4,265,995</u>	<u>87,091</u>
Net assets, end of year	\$ <u>4,627,788</u>	<u>86,656</u>

See accompanying notes to basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(1) The Financial Reporting Entity

The accounting policies followed in preparing the accompanying basic financial statements are as follows:

(a) *Primary Government*

The City of Boston (the City), incorporated as a town in 1630 and as a city in 1822, now exists under Chapter 486 of the Act of 1909 and Chapter 452 of the Acts of 1948 of the Commonwealth of Massachusetts (the Commonwealth) which, as amended, constitute the City's Charter. The Mayor is elected to a four-year term and serves as chief executive officer of the City. The Mayor has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of thirteen elected members serving two-year terms.

The accompanying basic financial statements present the City of Boston and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

(b) *Retirement System*

The State-Boston Retirement System (SBRS) is a defined benefit contributory retirement system created under state statute. It is administered by a Retirement Board comprised of five members: the City Auditor, who serves *ex officio*; two individuals elected by participants in the system; a fourth member appointed by the Mayor; and a fifth member chosen by the other members. The SBRS provides pension benefits to retired City, Boston Redevelopment Authority, Boston Housing Authority, Boston Water and Sewer Commission, Boston Public Health Commission and the Sheriff of Suffolk County employees. Although legally separate, the SBRS provides services entirely, or almost entirely to the City and thus has been reported as if it were part of the primary government; a method of inclusion known as blending.

A complete set of financial statements for SBRS for the fiscal year ended December 31, 2007 can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. The SBRS is included in the City's fiduciary fund financial statements.

(c) *Discretely Presented Component Units Disclosure*

These component units are reported in a separate column to emphasize that they are legally separate from the City but are included because the City is financially accountable for and is able to impose its will on the organizations. Unless otherwise indicated, the notes to the basic financial statements pertain only to the primary government because certain disclosures of the component units are not significant relative to the total component units and to the primary government. A description of the component units, criteria for inclusion, and their relationship with the City are as follows:

Boston Redevelopment Authority (BRA) – The BRA is a public body politic and corporate constituting the City's redevelopment authority and exercising the powers of a planning board for the City. The BRA is governed by a five-member board, four of whom are appointed by the Mayor. Its purpose is to provide planning support for major construction and redevelopment activity in the City.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Economic Development and Industrial Corporation of Boston (EDIC) – The EDIC is a body politic and corporate and an instrumentality of the Commonwealth. It is governed by the same persons appointed as members of the BRA board. The EDIC has various powers to assist industrial development projects in the City, and together with the BRA, assists the City with its economic development function.

Boston Public Health Commission (PHC) – The PHC is a body politic and corporate and public instrumentality of the Commonwealth, established by Chapter 147 of the Acts of 1995. PHC is governed by a seven-member board, six of whom are appointed by the Mayor and confirmed by the City Council, and one of whom is the chief executive officer of the Boston Medical Center (BMC). The PHC is responsible for the implementation of public health programs in the City.

Trustees of the Public Library of the City of Boston (TPL) – The TPL is a nonprofit organization qualified as a tax-exempt entity under Section 501(c)(3) of the Internal Revenue Code. Trustees of TPL are appointed by the Mayor. The TPL was established to benefit the public library system of the City.

The financial statements of the discretely presented component units are included for their respective fiscal year ends, which is June 30, 2008.

Complete financial statements of these discretely presented component units can be obtained through the City Auditor's office, Room M-4, City Hall Plaza, Boston, Massachusetts 02201. In addition, condensed financial statements for the discretely presented component units are included in note 17.

(d) Related Organizations

The Mayor is also responsible for appointing members of the governing bodies of the Boston Housing Authority, Boston Industrial Development Finance Authority, and Boston Water and Sewer Commission; however, the City's accountability for these organizations does not extend beyond making these appointments.

(2) Summary of Significant Accounting Policies

The accounting policies of the City of Boston, Massachusetts, conform to U.S. generally accepted accounting principles as applicable to governmental units as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies followed by the City:

(a) Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

(b) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation*

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. The agency fund within the fiduciary fund has no measurement to focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as *program revenues*. Likewise, general revenues include all taxes.

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurements focus and the modified accrual basis of accounting*. Revenues are recognized as soon as they are "susceptible to accrual" (i.e., both measurable and available.) Revenues not considered to be available are recorded as deferred revenue.

The City applies the susceptible to accrual criteria to property taxes and intergovernmental revenues. In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, resources must be expended on the specific purpose or project before any amounts will be reimbursed to the City; therefore, revenues are recognized based upon the amount of expenditures incurred. In the other, resources are virtually unrestricted and are usually revocable by the grantor only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

are met. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end.

Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and judgments and claims, are recorded only when payment is mature and due.

Proprietary Fund, Fiduciary Fund, and Component Unit Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of GASB. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from the collection of revenue pledged to repay debt. The principal operating revenues of the City's enterprise funds are lease receipts and excise taxes. The principal operating revenues of the City's internal service funds are receipts from employer and employee premiums for health insurance premiums. Operating expenses for enterprise funds and internal service funds include the interest, administrative expenses, and vendor payments. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental funds – The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special revenue fund* accounts principally for the activities funded by federal and state grant revenue sources and certain other revenues that are legally restricted to expenditures for specified purposes.

The *capital activities fund* accounts for bond proceeds and grant revenues used for the acquisition or construction of the City capital facilities.

Proprietary funds – The City reports the following major proprietary funds:

The *convention center bond fund* accounts for the City activities related to the financing for the construction of a new state-owned convention center. Revenue debt issued in connection with this fund is payable solely by specified local and state receipts.

The *hospital revenue bond fund* accounts for the activities related to the Boston City Hospital Revenue Bonds. These Bonds are payable solely from the mortgage note payments received from the Public Health Commission. These Bonds are repaid from a pledged revenue source from PHC.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Fiduciary funds – Additionally, the City reports the following fiduciary fund types:

The *private-purpose trust fund* is used to account for resources legally held in trust for the benefit of individuals, private organizations, or other governments. The City operates four pools used for the improvement of the City's parks and cemeteries, educational scholarships and sporting equipment, creation of public utility and beauty and co-mingled nontestamentary trusts.

The *pension trust fund* accounts principally for the activities of the State-Boston Employees Retirement System, a blended component unit, which accumulates resources for pension benefit payments to retired City employees.

The *agency funds* are used to report funds held by the City in a purely custodial capacity. The City currently operates a drug evidence account for proceeds from property seized from illegal drug related activities. These funds are then used to offset the costs of technical equipment or expertise and investigations.

The City also uses an internal service fund to account for its self-insured health costs. Although the fund is presented in a separate column in the accompanying basic financial statements, it is not considered a major fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) *Cash Equivalents*

For purposes of the statement of cash flows, investments with original maturities of three months or less when purchased are considered to be cash equivalents.

(d) *Basis of Investment Valuation*

Investments are presented in the accompanying basic financial statements at fair value. Where applicable, fair values are based on quotations from national securities exchanges, except for certain investments of SBRS which are described in notes 5 and 11. Further, income from investments is recognized in the same fund as the related investments.

The City invests in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool and is not SEC registered. The fund is state regulated and is valued at current share price.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(e) Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(f) Uncollectible Tax and Other Receivables

All receivables are shown net of an allowance for uncollectibles. Amounts considered to be uncollectible are based on the type and age of the related receivable.

(g) Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$15,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Any significant construction commitments are encumbered at year-end in the City's Capital Project Fund.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	30
Infrastructure	30
Land improvements – major	30
Land improvements – playgrounds	15
Computer upgrades	10
Equipment and machinery	10
Computers and related equipment	3
Furniture and fixtures	3
Motor vehicles	3

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(h) *Compensated Absences*

Employees are granted sick and vacation leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave (subject to certain limitations) at their then current rates of pay. The portion of the liability related to unused sick and vacation time that has matured or is due as of June 30, 2008 is recorded in the governmental fund financial statements. The liability for vacation leave is based on the amount earned but not used; for sick leave, it is based on the amount accumulated at the balance sheet date (vesting method). The liability for both amounts is calculated based on the pay or salary rates in effect at the balance sheet date.

(i) *Long-Term Obligations and Related Costs*

Premiums, Discounts, and Issue Costs – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The unamortized portion is presented in the government-wide statement of net assets. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

(j) *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

(k) *Tax Abatement Refunds*

Matured tax abatement refunds that are due and payable at June 30 have been recorded as a liability in the general fund. Other refunds have been recorded in the government-wide statement of net assets.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(l) Landfill Closure and Postclosure Care Costs

State and federal regulations require the City to place a final cover on its Gardner Street landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. At June 30, 2008, 100% of the Gardner Street landfill site had been used and had not accepted solid waste for several years. While most of the landfill closure construction was completed in prior years, there still remains 12 acres of the landfill to be capped as of June 30, 2008.

The total current cost of landfill closure and postclosure care is an estimate, subject to changes resulting from inflation, deflation, technology or other changes in applicable laws or regulations. Such costs are recognized as expenditures in the general fund to the extent that they are due or matured and are expected to be paid with expendable available financial resources. The total liability is reported in the government-wide statement of net assets. Expenditures related to the Gardner Street landfill site postclosure care in fiscal year 2008 were approximately \$263,000.

(m) Use of Estimates

The preparation of the accompanying basic financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Short-Term Debt

During fiscal year 2008, the City had no short-term debt issued or outstanding.

(4) Budgetary Data

The general fund is the only fund for which a budget is legally adopted. The budgets for all departments included in the general fund of the City, except the School Department, are prepared under the direction of the Mayor and City Council. The School Department budget is prepared under the direction of the School Committee.

Original and supplemental appropriations are submitted by the Mayor, approved by the City Council and lapse at year-end unless encumbered. The legal level of control over appropriations is at the department level. Amendments to the original budget must be approved by the City Council, except for a reallocation of appropriations of up to \$3 million, which the Mayor may approve. Further, the City Auditor, with the approval of the Mayor, may make transfers from any appropriation to any other appropriation for purposes of eliminating deficits before closing the books for the fiscal year. After the close of the fiscal year, the City Auditor may, with the approval of the Mayor, apply any income, taxes, and funds not disposed of and make transfers from any appropriation to any other appropriation for the purpose of closing the accounts for the fiscal year. Supplemental appropriations, other than the aforementioned transfers, were \$9.9 million for the year.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2-1/2 (note 6). The tax levy must equal the sum of (a) the aggregate of all annual appropriations for expenditures; plus (b) the reserve accounts described in the following paragraph; plus (c) provision for the prior fiscal years' deficits, if any; less (d) the aggregate of all nonproperty tax revenues projected to be received by the City, including available funds, in amounts certified or approved by the Commonwealth for tax rate purposes.

In accordance with the 1986 amendments to the Funding Loan Act of 1982, the City has established two reserve funds. The first is a budget reserve fund which is required to be funded in stages to a final level of 2-1/2% of the prior year's overall departmental appropriations, except the School Department, by the beginning of fiscal year 1990. It is available to be applied to extraordinary and unforeseen expenditures. The second is a separate reserve fund of 1% to 2-1/2% of the current year appropriation of the School Department to be applied to over expenditures in that department.

The City's general fund budget is prepared on a basis other than accounting principles generally accepted in the United States of America (GAAP). The "actual" results column in the statement of revenues and expenditures – budgetary basis – general fund is presented on a "budgetary basis" to provide a meaningful comparison of actual results with the budget. The major differences between the budget and GAAP basis, where applicable, are that:

- (a) Revenues are recorded when cash is received, except for real estate and personal property taxes which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).
- (c) Certain activities and transactions are presented in separate funds (GAAP), rather than as components of the general fund (budget).
- (d) Amounts raised for the prior years' deficits and available funds from prior years' surpluses are recorded as revenue items (budget), but have no effect on GAAP revenues.

In addition, there are certain differences in classifications between revenues, expenditures, and transfers.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the year ended June 30, 2008 (in thousands):

	Revenue	Expenditures	Other financing sources (uses), net	Excess of revenue and other financing sources
As reported on a budgetary basis	\$ 2,343,109	2,327,262	—	15,847
Adjustments:				
Revenues to modified accrual basis	13,919	—	—	13,919
Expenditures, encumbrances, and accruals, net	—	(37,814)		37,814
Reclassifications:				
State-funded teachers' retirement costs	(103,000)	(105,420)	—	2,420
Convention Center fund revenue	(23,000)	—	23,000	—
Transfers	(17,810)	—	17,810	—
As reported on a GAAP basis	\$ 2,213,218	2,184,028	40,810	70,000

(5) Deposits and Investments

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits, including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed 60% of the capital and surplus of such institution unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, bankers' acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the MMDT. The highest classifications for Moody's, Standard & Poor's (S&P) and Fitch are as follows:

	Commercial paper credit ratings		
	Moody's	S&P	Fitch
Superior	P1	A1 + or A1	F1 + or +F1
Satisfactory	P2	A2	F2
Adequate	P3	A3	F3

The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The City's fair value of its investment in the MMDT represents their value of the pool's shares.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City and its blended component unit apply GASB No. 40, *Deposit and Investment Risk Disclosures*. The standard requires that entities disclose essential risk information about deposits and investments.

Primary Government (except the pension trust fund)

(a) *Custodial Credit Risk*

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are fully insured by FDIC insurance, collateralized and deposits that are not collateralized and are uninsured. As of June 30, 2008, the bank balances of uninsured and uncollateralized deposits totaled approximately \$4.3 million. All of the City's investments are held by third parties in the City's name.

(b) *Investment Policy*

The City's primary concern in connection with its investment activities is a concern shared by all municipal governments: the preservation of capital. The City's investment policy establishes a domain in which all of the City's investment activities may be safely conducted while it strives to use its capital resources as efficiently as possible. The frontiers of that domain are fixed by Massachusetts General Laws M.G.L. c. 44, sec. 55, which prohibits Massachusetts communities from investing in certain categories of high-risk investments; limit the amount of the City's bank deposits in any one financial institution; and which establish qualifying criteria for banking institutions. Further, all investments held by third parties are to be held in the City's name.

(c) *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The following is a listing of the City's fixed income investments (in thousands) and related maturity schedule (in years) as of June 30, 2008:

Investment type	Fair value	Less than 1	1 – 5
External investment pool	\$ 538,949	538,949	—
Mutual funds	127,633	127,633	—
U.S. Treasury notes and bonds	12,382	—	12,382
Domestic corporate	4,654	—	4,654
	<u>\$ 683,618</u>	<u>666,582</u>	<u>17,036</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(d) Credit Risk

The City's fixed income investments as of June 30, 2008 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>Rating</u>
External investment pool	\$ 538,949	Not rated
Mutual funds	127,633	AAA
Domestic corporate	4,654	AAA to BBB+
	<u>\$ 671,236</u>	

(e) Concentration Risk

The City adheres to the provisions of M.G.L. c. 44, sec. 55 when managing concentration risk. M.G.L. c. 44, sec. 55 contains several restrictions limiting where and under what circumstances the City may deposit its funds. Pursuant to M.G.L. c. 44, sec. 55, cities and towns in the Commonwealth may deposit available fund balances in banks, trust companies, or banking companies, provided that the amounts deposited do not exceed 60% of the capital and surplus of an institution unless satisfactory security for the amount in excess of 60% is provided by the depository.

State-Boston Retirement System (SBRS or the System)

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name. The System also carries deposits that are not collateralized and are uninsured. As of December 31, 2007, all of the System's deposits were insured or collateralized.

(b) Investment Policy

The provisions of M.G.L. c. 32, sec 23(2) govern the System's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec. 23(3), the "Prudent Person" rule.

The System has retained an investment consultant to work with the Retirement Board in a fiduciary capacity to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), real estate, private equity, and hedge funds.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(c) *Interest Rate Risk*

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2007:

Investment type	Fair value	Less than 1	1 – 5	6 – 10	More than 10
U.S. Treasury notes and bonds \$	34,092	—	—	6,040	28,052
U.S. agencies	94,584	—	22,091	26,960	45,533
Domestic corporate	340,580	16,325	123,422	151,259	49,574
International corporate	138,411	6,204	51,134	52,584	28,489
International government	105,855	1,525	49,699	32,438	22,193
Short-term investment funds	50,938	50,938	—	—	—
Asset-backed:					
CMOs	35,531	—	—	2,294	33,237
Mortgage-backed	100,356	—	724	9,454	90,178
Other	18,759	—	5,607	8,322	4,830
	<u>\$ 919,106</u>	<u>74,992</u>	<u>252,677</u>	<u>289,351</u>	<u>302,086</u>

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The manager of each fixed income portfolio is responsible for determining the maturity and commensurate returns of their portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2007 are highly sensitive to changes in interest rates.

(d) *Credit Risk*

The System allows investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The System's fixed income investments as of December 31, 2007 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard and Poor's rating scale:

Investment type	Fair value	AAA	AA	A	BBB	BB	B	CCC	Not rated
U.S. agencies	\$ 94,584	87,479	—	—	—	—	—	—	7,105
Domestic corporate	340,580	9,826	62,428	151,184	22,289	46,396	45,176	846	2,435
International corp.	138,411	53,114	18,276	8,652	25,254	13,161	6,707	—	13,247
International gov't	105,855	67,576	24,924	5,363	2,373	2,552	2,745	—	322
Short-term investment funds	50,938	—	—	—	—	—	—	—	50,938
Asset-backed:									
CMOs	35,531	34,084	1,435	—	—	—	—	—	12
Mortgage-backed	100,356	96,659	—	—	—	—	—	—	3,697
Other	18,759	12,510	1,175	—	—	—	—	—	5,074
	<u>\$ 885,014</u>	<u>361,248</u>	<u>108,238</u>	<u>165,199</u>	<u>49,916</u>	<u>62,109</u>	<u>54,628</u>	<u>846</u>	<u>82,830</u>

In addition to the above schedule, the System has approximately \$34,092,000 invested in U.S. government securities, which are not rated as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

The System has no investments, at fair value, that exceed 5% of the System's net assets held in trust for pension benefits as of December 31, 2007.

The System adheres to the provisions of M.G.L. c. 32, sec. 23(2) when managing concentration risk.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table (in thousands).

Currency	Short-term	Fixed income	Equity	Alternative	Total
Australian dollar	\$ 244	—	41,296	—	41,540
Brazilian real	(83)	—	11,814	—	11,731
Canadian dollar	119	2,859	10,303	—	13,281
Chilean Pesa	—	—	40	—	40
Columbian Peso	—	1,557	—	—	1,557
Danish krone	2	—	9,716	—	9,718
Egyptian Pound	33	—	295	—	328
Euro currency	10,055	79,866	256,508	6,533	352,962
Hong Kong dollar	49	—	22,481	—	22,530
Indian Rupee	14	—	11,175	—	11,189
Indonesian rupiah	4	1,243	2,270	—	3,517
Japanese yen	1,306	65,108	168,400	—	234,814
Malaysian ringgit	67	5,471	5,198	—	10,736
Mexican peso	59	—	3,975	—	4,034
New Taiwan dollar	593	—	1,002	—	1,595
New Zealand dollar	30	—	—	—	30
Norwegian krone	32	—	11,481	—	11,513
Philippine peso	—	—	322	—	322
Polish Zloty	162	2,613	775	—	3,550
Pound sterling	1,161	13,857	142,580	—	157,598
Singapore dollar	215	8,526	8,886	—	17,627
South African rand	42	—	5,757	—	5,799
South Korean won	2	1,872	8,147	—	10,021
Swedish krona	283	6,281	21,249	—	27,813
Swiss franc	32	—	45,215	—	45,247
Thailand baht	9	—	2,240	—	2,249
International equity pooled funds (various currencies)	—	—	113,147	—	113,147
Total securities subject to foreign currency risk	14,430	189,253	904,272	6,533	1,114,488
United States dollars (securities held by international investment managers)*	14,442	55,013	28,837	—	98,292
Total international investment securities	\$ 28,872	244,266	933,109	6,533	1,212,780

* Short-term investments include cash of approximately (\$1,614).

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(g) *Derivatives*

The System trades financial instruments with off-balance-sheet risk in the normal course of its investing activities to assist in managing exposure to market risks. The System uses forward foreign currency contracts to hedge against the risk of future foreign currency fluctuations. Forward foreign currency contracts open at December 31, 2007 were as follows (in thousands):

	<u>Fair value</u>	<u>Aggregate face value</u>	<u>Delivery date(s)</u>	<u>Unrealized gains</u>	<u>Unrealized losses</u>
Forward foreign currency contracts purchased:					
Australian dollar	\$ 333	333	1/2/08	\$ —	—
Hong Kong dollar	2,140	2,140	1/3/08	—	—
Indian rupee	211	211	12/10/07	—	—
South African rand	17,305	17,166	3/5/08	139	—
Forward foreign currency contracts sold:					
Brazilian real	64	64	1/2/08 – 1/3/08	—	—
Canadian dollar	3	3	1/2/08	—	—
Egyptian pound	33	33	12/31/07	—	—
Hong Kong dollar	60	60	1/2/08 – 1/3/08	—	—
Indian rupee	85	85	1/2/08	—	—
Japanese yen	4	4	1/4/08	—	—
South African rand	2,308	2,502	3/5/08	—	(194)
Total				\$ 139	(194)

(6) **Property Taxes**

Real and personal property taxes are based on values assessed as of each January 1. By law, all taxable property must be assessed at 100% of fair cash value. Also by law, property taxes must be levied at least 30 days prior to their due date. Once levied, these taxes are recorded as receivables, net of estimated uncollectible balances. Property tax revenues have been recorded using the modified accrual basis of accounting, described in note 2.

The City bills and collects its property taxes on a quarterly basis following the January 1 assessment. The due dates for those quarterly tax billings are August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges.

Based on the City's experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. On December 11, 2007, all properties with unpaid fiscal year 2007 property taxes were lienied. The City ultimately has the right to foreclose on all properties where the taxes remain unpaid.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

A statewide property tax limitation known as "Proposition 2-1/2" limits the amount of increase in the property tax levy in any fiscal year. Generally, Proposition 2-1/2 limits the total levy to an amount not greater than 2-1/2% of the total assessed value of all taxable property within the City. Secondly, the tax levy cannot increase by more than 2-1/2% of the prior year's levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2-1/2 can be overridden by a City-wide referendum.

(7) Receivables

Receivables as of year-end for the government's individual major funds, nonmajor funds and internal service fund, including the applicable allowances for uncollectible accounts are as follows (in thousands):

	General	Special revenue	Capital projects	Other nonmajor funds	Internal service	Total
Receivables:						
Property taxes	\$ 19,774	—	—	—	—	19,774
Other taxes	145,143	—	—	—	—	145,143
Intergovernmental	237,443	95,246	53,482	—	—	386,171
Other	66,398	59,167	—	208	317	126,090
Gross receivables	468,758	154,413	53,482	208	317	677,178
Less allowance for uncollectibles	(159,278)	—	—	—	—	(159,278)
Net total receivables	\$ 309,480	154,413	53,482	208	317	517,900

(a) Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (up to 90% of total costs) to the City to build and/or renovate schools. As of June 30, 2008, under this program, the City was due funds totaling \$101 million.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown (in thousands) as of June 30, 2008 through 2013, and in five-year increments thereafter:

Fiscal year(s):	Anticipated revenue
2009	\$ 13,199
2010	12,956
2011	11,158
2012	9,848
2103	8,833
2014 – 2018	37,434
2019 – 2020	7,569
Total	\$ 100,997

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Notes Receivable

Section 108 is the loan guarantee provision of the Community Development Block Grant (CDBG) program. Section 108 provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. Housing and Urban Development (HUD) provides grants to local governments, which in turn provides loans to developers. As of June 30, 2008, under this program, the City determined that \$58.9 million was collectible.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows (in thousands):

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Delinquent taxes receivable (general fund)	\$ 19,529	—	19,529
Due from component units	—	7,829	7,829
Section 108 receivable	58,884	—	58,884
School building assistance receivable	100,997	35,893	136,890
Chapter 90	—	13,081	13,081
Other	—	(538)	(538)
Total deferred/unearned revenue for governmental funds	\$ <u>179,410</u>	<u>56,265</u>	<u>235,675</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(8) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

Primary Government

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 17,825	7,235	—	25,060
Construction in progress	133,396	133,420	(262,778)	4,038
Total capital assets not being depreciated	<u>151,221</u>	<u>140,655</u>	<u>(262,778)</u>	<u>29,098</u>
Capital assets being depreciated:				
Land improvements	112,963	28,712	—	141,675
Buildings and improvements	1,455,724	176,578	(71)	1,632,231
Furniture and equipment	204,737	29,635	(8,808)	225,564
Infrastructure	362,300	45,683	—	407,983
Total capital assets being depreciated	<u>2,135,724</u>	<u>280,608</u>	<u>(8,879)</u>	<u>2,407,453</u>
Less accumulated depreciation for:				
Land improvements	17,809	5,596	—	23,405
Buildings and improvements	855,434	26,281	(2)	881,713
Furniture and equipment	162,157	18,839	(8,579)	172,417
Infrastructure	125,067	12,232	—	137,299
Total accumulated depreciation	<u>1,160,467</u>	<u>62,948</u>	<u>(8,581)</u>	<u>1,214,834</u>
Total capital assets being depreciated, net	<u>975,257</u>	<u>217,660</u>	<u>(298)</u>	<u>1,192,619</u>
Governmental activities capital assets, net	<u>\$ 1,126,478</u>	<u>358,315</u>	<u>(263,076)</u>	<u>1,221,717</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Depreciation expense was charged to functions of the primary government as follows (in thousands):

Governmental activities:		
General government	\$	984
Human services		1,045
Public safety		10,320
Public works, including depreciation of general infrastructure assets		13,443
Property and development		2,182
Parks and recreation		4,719
Library		3,062
Schools		26,464
County		510
Public health		219
Total depreciation expense – governmental activities	\$	<u>62,948</u>

(9) Interfund Receivable and Payable Balances

Individual fund and discrete component unit receivable and payable balances at June 30, 2008, are as follows (in thousands):

Interfund balances	Receivable	Payable
General	\$ 27,603	4,382
Special revenue	2,510	4,603
Capital projects	1,379	—
Convention Center	—	23,000
Internal service	493	—
Balances at June 30, 2008	\$ <u>31,985</u>	<u>31,985</u>

The purpose of the internal balances is to fund cash flows due to timing differences between receipts and disbursements (in thousands):

Discrete component unit balances	Receivable	Payable
Primary government:		
General	\$ 7,829	250
Hospital revenue bond	89,725	—
	<u>97,554</u>	<u>250</u>
Discretely presented component units:		
TPL	—	466
PHC	250	97,088
	<u>250</u>	<u>97,554</u>
Balances at June 30, 2008	\$ <u>97,804</u>	<u>97,804</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(10) Long-Term Obligations

(a) Governmental Activity Obligations

Following is a summary of the governmental long-term obligations of the City as of June 30, 2008 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Bonds and notes payable:						
General obligation refunding bonds dated 3/1/08	3.25% - 4.00%	\$ —	28,155	—	28,155	1,040
General obligation bonds dated 3/1/08	5.0	—	126,185	—	126,185	6,360
General obligation refunding bonds dated 3/1/07	0.125 - 5.0	85,425	—	395	85,030	310
General obligation bonds dated 3/1/07	3.0 - 5.0	100,000	—	5,625	94,375	5,585
General obligation bonds dated 1/31/06	4.0 - 5.0	73,765	—	6,235	67,530	6,235
General obligation refunding bonds dated 2/1/05	2.5 - 5.0	117,525	—	5,125	112,400	5,125
General obligation refunding bonds dated 4/1/04	2.0 - 5.0	24,750	—	6,110	18,640	5,995
General obligation refunding bonds dated 2/1/04	3.0 - 5.0	82,635	—	9,715	72,920	9,755
General obligation refunding bonds dated 2/1/03	2.25 - 5.0	107,455	—	9,885	97,570	9,195
General obligation refunding bonds dated 11/15/02	4.0 - 5.0	11,455	—	5,160	6,295	6,295
General obligation refunding bonds dated 8/15/02	2.875 - 5.0	46,965	—	295	46,670	310
General obligation bonds dated 2/1/02	3.0 - 5.0	46,225	—	5,645	40,580	5,645
General obligation refunding bonds dated 4/11/01	3.50 - 5.0	42,450	—	2,900	39,550	6,250
General obligation bonds dated 2/1/01	4.25 - 5.0	46,180	—	6,890	39,290	6,890
General obligation bonds dated 2/1/00	5.0 - 5.75	18,075	—	6,025	12,050	6,025
General obligation bonds dated 10/15/98	3.25 - 5.0	22,660	—	6,685	15,975	6,685
General obligation refunding bonds dated 4/15/98	4.5 - 5.25	30,725	—	30,725	—	—
General obligation bonds dated 1/15/98	4.5	4,625	—	4,625	—	—
Total governmental obligation bonds payable		<u>\$ 860,915</u>	<u>154,340</u>	<u>112,040</u>	903,215	<u>87,700</u>
Add (deduct):						
Unamortized bond premiums					39,165	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(9,480)	
Current portion of long-term debt					(87,700)	
					<u>\$ 845,200</u>	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Notes and Leases Payable and Other Long-Term Obligations

Following is a summary of the notes payable and other long-term obligations of the City as of June 30, 2008 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Notes and leases payable:						
MWPAT note payable	4.25% – 5.75% \$	6,640	—	454	6,186	444
Notes payable – Section 108	5.44 – 7.18	27,530	5,050	3,345	29,235	2,365
Leases		24,386	22,275	9,888	36,773	11,120
Total notes and leases payable		58,556	27,325	13,687	72,194	13,929
Other long-term obligations:						
Judgments and claims		7,411	561	1,967	6,005	1,245
Workers' compensation		63,813	47,407	37,369	73,851	34,609
Health and life claims		6,827	89,392	88,783	7,436	7,436
Compensated absences		163,474	49,320	44,478	168,316	45,997
Landfill closure and postclosure care costs		9,381	—	262	9,119	200
Other postemployment benefits		—	327,752	114,929	212,823	—
Total other long-term obligations		250,906	514,432	287,788	477,550	89,487
Total notes, leases, and other long-term obligations		\$ 309,462	541,757	301,475	549,744	103,416

The payment of liabilities for judgments and claims, compensated absences, landfill closure and postclosure costs, and other postemployment benefits is primarily the responsibility of the City's general fund.

(c) Business Type Activity Obligations

Following is a summary of the business type long-term obligations of the City as of June 30, 2008 (in thousands):

	Interest rates	Outstanding, beginning of year	Additions	Reductions	Outstanding, end of year	Due within one year
Convention Center fund:						
Special Obligation Bonds dated 4/1/02	4.0% – 5.25% \$	103,715	—	3,230	100,485	3,400
Hospital Bond fund:						
Special Obligation Refunding Bonds, Boston City Hospital, dated 8/1/02	2.0 – 5.0	101,490	—	6,690	94,800	6,960
Total business type obligations		\$ 205,205	—	9,920	195,285	10,360
Add (deduct):						
Unamortized bond premiums					2,580	
Unamortized excess of reacquisition price over net carrying amount of defeased bonds					(340)	
Current portion of long-term debt					(10,360)	
					\$ 187,165	

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

A. General Obligation Bonds

The annual debt service requirements of the City's general obligation governmental bonds outstanding as of June 30, 2008, are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 87,700	41,162	128,862
2010	84,850	37,184	122,034
2011	80,200	33,372	113,572
2012	76,965	29,667	106,632
2103	71,385	26,145	97,530
2014 – 2018	273,335	86,645	359,980
2019 – 2023	164,835	32,783	197,618
2024 – 2028	63,945	7,481	71,426
	<u>\$ 903,215</u>	<u>294,439</u>	<u>1,197,654</u>

On March 1, 2008, the City issued \$154,340,000 of general obligation and refunding bonds, \$126,185,000 for various municipal capital projects, and \$28,155,000 for the purpose of refunding certain outstanding general obligation bonds of the City totaling \$28.6 million. Interest on the bonds are payable semiannually each March 1, and September 1, until maturity in fiscal years 2028 and 2015, respectively. The cash flow difference and economic gain (the difference between the present values of the debt service payments on old and new debt) obtained from the refunding were \$2,586,375 and \$2,229,798, respectively.

No Obligation Debt

The City has outstanding industrial, commercial, and housing development bonds payable solely from revenues of the respective enterprises that do not constitute an indebtedness of the City and are not a charge against its general credit. This aggregate amount is immaterial to the financial statements.

The City is subject to a dual general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the City as last equalized by the State Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2008, the City may issue \$3.2 billion of additional general obligation debt under the debt limit. General obligation debt of \$477.3 million, subject to the debt limit, and \$88.1 million, exempt from the debt limit, are authorized but unissued as of June 30, 2008.

B. Notes and Leases Payable

At June 30, 2008, the City had various notes outstanding totaling \$35.4 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The annual debt of the City's notes payable as of June 30, 2008, is as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 2,809	1,602	4,411
2010	3,686	1,539	5,225
2011	3,683	1,368	5,051
2012	3,206	1,209	4,415
2103	3,720	1,019	4,739
2014 – 2018	14,496	2,844	17,340
2019 – 2023	3,821	563	4,384
	<u>\$ 35,421</u>	<u>10,144</u>	<u>45,565</u>

In the prior year, the Massachusetts Water Pollution Abatement Trust (MWPAT) refinanced its outstanding debt, which resulted in debt service savings passed through to the City via the MWPAT note. The loan provides funding for the closure and postclosure care costs relating to the City's Gardner Street Landfill. Proceeds are received on a reimbursement basis from MWPAT as expenditures are incurred by the City.

C. Proprietary Fund Obligations

The annual debt service requirements of the City's special obligation bonds and Boston City Hospital, Series B, revenue bonds, outstanding as of June 30, 2008 are as follows (in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending June 30:			
2009	\$ 10,360	9,008	19,368
2010	10,815	8,546	19,361
2011	11,250	8,108	19,358
2012	11,700	7,652	19,352
2013	12,170	7,173	19,343
2014 – 2018	69,510	26,895	96,405
2019 – 2023	40,155	12,161	52,316
2024 – 2027	29,325	3,755	33,080
	<u>\$ 195,285</u>	<u>83,298</u>	<u>278,583</u>

The revenue refunding bonds of the Boston City Hospital (BCH) do not constitute general obligations of the City and the annual debt service of these bonds has been assumed by the Boston Public Health Commission. The Boston Public Health Commission expects to meet its obligation on the bonds through application of a portion of the rent payable to the Boston Public Health Commission by the Boston Medical Center Corporation (BMC) for its lease of the former Boston City Hospital. Under certain circumstances, including a default by BMC under the lease, City revenues may be required to satisfy the debt service requirements on the Series B bonds.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The Boston Public Health Commission has assumed responsibility for paying to the City, an amount equal to current debt service on all outstanding general obligation bonds of the City issued for public health and hospital purposes, which amounted to \$7.0 million at June 30, 2008.

Defeased Debt

The following transactions met the requirements of an in-substance defeasance:

- On April 11, 2001, the City issued \$52.0 million in general obligation refunding bonds to advance refund \$49.9 million of 1991, 1994, and 1995 Series Bonds.
- In August 2002, \$127.8 million of bonds were issued to refund the Boston City Hospital, Series B Bonds dated June 1, 1993.
- On November 15, 2002, the City issued \$43.1 million of general obligation refunding bonds for the purpose of refunding \$45.1 million of outstanding general obligation bonds of the City, 2002 Series C.
- In February 2004, the City issued \$35.9 million of general obligation refunding bonds to advance refund \$37.7 million of 1994, 1995, 1996, and 1998 Series Bonds.
- In February 2005, the City issued \$52.8 of general obligation refunding bonds to advance refund \$56.9 million of 1996, 1998, and 2000 Series Bonds.
- In March 2007, the City issued \$85.4 million of general obligation refunding bonds to advance refund \$81.4 million of 1998A, 1998C, 2001A, 2002A, and 2003A Series Bonds.
- In March 2008, the City issued \$28.2 million of general obligation refunding bonds to advance refund \$28.6 million of 1998B Series Bonds.

The principal amount of debt refunded through in-substance defeasance transactions and still outstanding at June 30, 2008 was approximately \$148.3 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

D. Lease Obligations

The City has entered into various capital lease agreements for equipment acquisition. Payments under these agreements are subject to annual appropriation and, by statute, are not included in the City's debt limit calculations. Activity in capital lease agreements during fiscal year 2008 was as follows (in thousands):

<u>Date of issuance</u>	<u>Outstanding, beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding, end of year</u>
December 20, 2003	\$ 209	—	209	—
April 21, 2004	623	—	398	225
November 5, 2004	2,508	—	1,232	1,276
March 11, 2005	458	—	312	146
November 10, 2005	4,731	—	1,276	3,455
April 13, 2006	2,365	—	993	1,372
November 22, 2006	13,492	—	3,045	10,447
October 25, 2007	—	22,274	2,422	19,852
	<u>\$ 24,386</u>	<u>22,274</u>	<u>9,887</u>	<u>36,773</u>

Assets acquired under capital leases are included in equipment under capital assets.

Future minimum payments under capital leases and installment sales as of June 30, 2008 are as follows (in thousands):

2009	\$ 12,292
2010	9,628
2011	7,481
2012	4,917
2013	3,006
2014 – 2015	<u>2,444</u>
Total minimum lease payments	39,768
Less amount representing interest	<u>2,995</u>
Total minimum principal lease payments	36,773
Less current portion	<u>11,120</u>
Long-term portion	<u>\$ 25,653</u>

The City's commitment under operating leases is not significant.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(11) Retirement Plans

(a) *Plan Description*

The City contributes to the SBRS, a cost-sharing multiple-employer defined benefit pension plan. The System provides retirement, disability and death benefits to plan members and beneficiaries of the following government units:

- (1) City of Boston
- (2) Boston Redevelopment Authority
- (3) Boston Housing Authority
- (4) Boston Water and Sewer Commission
- (5) Boston Public Health Commission
- (6) Suffolk County Sheriff's Department

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan to the state legislature.

The System is administered by a five-person Board of Retirement consisting of the City Auditor, who serves as a member *ex officio*, two members who are elected by the participants, in or retired from the service of the System, a fourth member appointed by the Mayor, and a fifth member chosen by the other members.

(b) *Basis of Accounting*

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Bonds are stated at quoted market value.
- (b) Equity securities are stated at quoted market value.
- (c) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (d) Venture capital funds are stated at contributed cost or fair market value, whichever is more readily determinable.
- (e) International investments are stated at quoted market value and are included in equities and fixed income categories.
- (f) Cash is stated at carrying amount which is reconciled book balance.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(c) Membership

Membership in the System consisted of the following at December 31, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	13,849
Terminated plan members entitled to but not receiving benefits	9,512
Active plan members	21,638
Total membership	44,999
Total number of participating employers	6

(d) Contributions

Plan members are required to contribute to the System. Depending on their employment date, active members must contribute a range of 5% – 9% of their regular gross compensation. Members hired after December 31, 1978 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution, which is apportioned among the employers based on active covered payroll. The Commonwealth of Massachusetts (the Commonwealth) reimburses the City for benefits paid to school teachers. The Commonwealth also reimbursed the System for a portion of benefit payments for cost of living increases granted before July 1, 1998. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL. The City's required and actual contributions to the System for the years ended June 30, 2008, 2007 and 2006 were \$203 million, \$193 million, \$186 million, or \$105 million, or \$99 million, and \$101 million, net of teachers' retirement, respectively.

During the fall of 1997, the System's Retirement Board, the City Council, and the Mayor approved the option for local funding of cost of living adjustments. As a result, a locally funded cost of living adjustment of 3.0% on the first \$12,000 of a retiree's annual payment was awarded in fiscal year 2001 and each year following. These cost of living adjustments will be awarded by the Retirement Board each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(e) *Legally Required Reserve Accounts*

The balance in the System's legally required reserves (on the statutory basis of accounting) at December 31, 2007 are as follows (in thousands):

Description	Amount	Purpose
Annuity savings fund	\$ 1,263,247	Active members' contribution balance
Annuity reserve fund	405,683	Retired members' contribution account
Military service credit	49	Members' contribution account while on military leave
Pension reserve fund	2,549,910	Amounts appropriated to fund future retirement benefits
Pension fund	408,899	Remaining net assets
	<u>\$ 4,627,788</u>	

All reserve accounts are funded at levels required by State statute.

(f) *Securities Lending*

The Public Employment Retirement Administration Commission of Massachusetts (PERAC) has issued supplemental regulations that permit the System to engage in securities lending transactions. These transactions are conducted by the System's custodian, which lends certain securities owned by the System to other broker-dealers and banks pursuant to a form of loan agreement. The System and the borrowers maintain the right to terminate all securities lending transactions on demand.

At the System's direction, the custodian lends the System's securities and receives cash (including both United States and foreign currency), United States government securities, sovereign debt of foreign countries, and irrevocable bank letters of credit as collateral. The custodian does not have the ability to pledge or sell collateral unless the borrower defaults. Borrowers are required to deliver cash collateral in amounts equal to not less than 100% of the market value of the loaned securities.

The System does not impose any restrictions on the amount of securities lent on its behalf by the custodian. There were no failures by any borrowers to return loaned securities or pay distributions thereon, and there were no losses from a default of the borrowers or the custodian for the year ended December 31, 2007. The cash collateral received by the custodian on each loan was invested, together with the cash collateral of other qualified tax-exempt plan lenders, in a collective investment pool. The relationship between the average maturities of the investment pool and loans was affected by the maturities of the loans made by other plans that invested cash collateral in the collective investment pool, which the System could not determine. At December 31, 2007, the System had no credit risk exposure to borrowers because the amounts the System owed the borrowers exceeded the amounts owed to the System. Borrower rebates and fees paid to the custodian during the year ended December 31, 2007 was \$1.3 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

At December 31, 2007, the fair value of securities loaned by the System amounted to \$426.3 million, against which was held collateral of \$440.3 million, as follows (in thousands):

Short-term collateral investment pool	\$	382,515
Noncash collateral		<u>57,797</u>
Total	\$	<u><u>440,312</u></u>

(g) Commitments

At December 31, 2007, the System had contractual commitments to provide approximately \$77 million of additional funding to venture capital funds.

(h) Funded Status and Funding Progress

In 2007 and 2008, the System and the City, respectively, adopted GASB Statement No. 50, *Pension Disclosures*. This new standard now requires entities to report the results of the most recent actuarial valuation in the footnotes. This information was previously only required to be reported as required supplementary information.

The funded status of the System as of January 1, 2007, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	\$	6,223,154
Actuarial value of plan assets		<u>4,138,146</u>
Unfunded actuarial accrued liability (UAAL)	\$	<u><u>2,085,008</u></u>
Funded ratio (actuarial value of plan assets/AAL)		66.5%
Covered payroll (active plan members)	\$	1,221,404
UAAL as a percentage of covered payroll		170.7%

In the January 1, 2007 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 5.0%, and cost-of-living adjustments of 3% up to \$360 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2007 was 16 years.

(12) Other Postemployment Benefits (OPEB)

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, is required to be implemented by governments with annual revenues greater than \$100 million for financial statement periods beginning after December 15, 2006. Statement No. 45 requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the government-wide statement of activities when a future retiree earns their postemployment

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the government-wide statement of net assets over time.

In addition to the pension benefits described in note 11, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries. Participating retirees are City of Boston retirees. As of June 30, 2007, the valuation date, approximately 14,000 retirees and 16,000 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in an agent multi-employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report. GASB Statement No. 43 requires the City to report their OPEB plan as an agency fund in their fiduciary financial statements. However, the City has determined that activity in this fund is immaterial to the City's financial statements and does not present the fund within the fiduciary financial statements.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Neighborhood Health Plan. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through supplemental and Medicare Advantage plans offered by Blue Cross Blue Shield of Massachusetts, Harvard Pilgrim HealthCare, and Tufts Health Plan.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre- and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2007, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2008, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2007 (in thousands):

Annual Required Contribution (ARC)	\$ 327,752
Interest on net OPEB obligation	—
Adjustment to ARC	—
Annual OPEB cost	<u>327,752</u>
Contributions made	<u>(114,929)</u>
Change in net OPEB obligation	212,823
Net OPEB obligation – beginning of year	—
Net OPEB obligation – end of year	<u><u>\$ 212,823</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows (in thousands):

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
2008	\$ 327,752	35%	212,823

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2008, based on an actuarial valuation as of June 30, 2007, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 5,490,836
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	<u><u>\$ 5,490,836</u></u>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 669,802
UAAL as a percentage of covered payroll	820%

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the City are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) *Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the City and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return and an annual health care cost trend rate of 10% – 11% initially, reduced by decrements to an ultimate rate of 5% after 5 – 6 years. The health care cost trend rate differs between the master medical and other healthcare plans. The actuarial value of assets was determined using the market value of investments. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at July 1, 2007 was thirty years.

(13) Transfers

Transfers and their purposes during the year ended June 30, 2008 were as follows (in thousands):

	Governmental funds				Proprietary fund
	General	Special revenue	Capital projects	Other governmental	Convention center
Primary government:					
Excess hotel/motel excise taxes	\$ 23,000	—	—	—	(23,000)
Cemetery fees/fund appropriation	2,141	—	—	(2,141)	—
Parking meter fees/fund appropriation payment	10,000	(10,000)	—	—	—
Sale of surplus property	5,669	—	(5,669)	—	—
Total	\$ 40,810	(10,000)	(5,669)	(2,141)	(23,000)

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(14) Excess of Expenditures over Budgets

The City had expenditures in excess of their budgeted amounts for the year ended June 30, 2008 in the following categories (in thousands):

Public safety:		
Police Department	\$	10,918
Fire Department		5,996
Public Works		
Snow removal		4,872
State and district assessments:		
Parking surcharge		40
Special education Chapter 766		94
	\$	<u>21,920</u>

The excess expenditures reported above are allowed under the budgetary laws governing the City.

(15) Public Health System

Effective July 1, 1996, the City's Department of Health and Hospitals and Trustees of Health and Hospitals, were abolished. Substantially all their assets and liabilities, including title to the City's two hospitals, Boston City Hospital (BCH) and Boston Specialty and Rehabilitation Hospital (BSRH), were transferred to and assumed by the Boston Public Health Commission (PHC).

Also effective July 1, 1996, the operations of BCH and BSRH were consolidated with the operations of the Boston University Medical Center under the licensure and control of the Boston Medical Center Corporation (BMC).

The PHC receives the majority of its funding from Federal and state grants, lease agreements with BMC and a City appropriation. During fiscal year 2008, the City appropriated \$68.2 million to the PHC. As described below, the PHC uses the appropriation to pay debt service on certain general obligation bonds and base assistance grant payments to BMC. The remainder of the appropriation is used for administrative purposes and to support the various public health programs run by the PHC. The City has budgeted \$69.4 million for the PHC for fiscal year 2009.

Due from PHC/BMC

On July 1, 1996, in connection with the consolidation transaction described above, the PHC assumed a liability of \$149.8 million for a mortgage note due to the City. In August 2002, this note was refinanced such that the stream of payments made by the PHC on the new note will be used to pay the outstanding balance of \$122.9 million of the City's Special Obligation Refunding Bonds dated August 2002. The PHC receives funding for the note payments from the BMC under a lease agreement whereby the BMC leases portions of the former BCH for an initial period of 50 years. Rental payments received under this lease are equal to the debt service costs on the new note and on all City general obligation bonds allocable to BCH. These general obligation bonds were issued by the City between December 1967 and October 1995 and total \$7.0 million at June 30, 2008. These bonds pertain to the property and operations of the BCH

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Campus, South Block Campus, BSRH Campus, Emergency Medical Services Operations, and the Long Island Campus.

In addition, the PHC and BMC are also responsible for reimbursing the City for health insurance, equipment lease payments, workers' compensation, and other miscellaneous expenses paid for by the City.

Payments to BMC

PHC is obligated to make future base assistance grant payments to BMC of \$10.8 million each year through fiscal year 2019.

(16) Risk Management

The City is self insured for general liability, property, and casualty (except for boiler and machinery losses up to \$10.0 million), worker injury, unemployment, and certain employee health claims. The City's Corporation Counsel defends the City in any lawsuits that arise from the normal course of operations, with exposure limited by a state tort cap under Chapter 258 of the MGL. Except for certain health care costs described below, judgments and claims are charged to the general fund.

The City's health insurance program, administered by the Health Insurance and Benefits Division, a program within Human Resources, provides coverage to the City's employees and retirees through a number of Health Maintenance Organizations (HMO) and Blue Cross/Blue Shield of Massachusetts (BC/BS). Costs to the City for the HMOs, which varies from 90%-82.5% of total premium after employee contributions, are accounted for in the general fund and are capped at a defined premium payment per employee.

BC/BS acts as a third-party agent for the City in the payment of the various claim plans used by the City. City costs incurred for the operation of the BC/BS plans, totaling 75% of premium after employee contributions, are accounted for in a separate health insurance internal service fund.

The City has implemented a comprehensive risk financing strategy that includes establishing a catastrophic risk reserve, currently with a \$12.2 million balance available for future losses. The City's property insurance was renewed – a one-year, all-risk catastrophic property insurance policy covering all City property assets up to \$100.0 million, after a \$10.0 million retention. Any boiler and machinery-related property loss is additionally insured, after a \$50,000 deductible, for up to \$10.0 million.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

The City has established a liability based on historical trends of previous years and attorney's estimates of pending matters and lawsuits in which the City is involved. Changes in the self-insurance liability for the fiscal years ended June 30, 2008 and 2007 are as follows (in thousands):

		Internal service fund	
		2008	2007
Health and life claims, beginning of year	\$	6,827	6,593
Incurred claims		89,392	89,289
Payments of claims attributable to events of both the current and prior fiscal years:			
Health and life		(88,783)	(89,055)
Health and life claims, end of year	\$	<u>7,436</u>	<u>6,827</u>
		Government-wide statements	
		2008	2007
Judgments and claims, beginning of year	\$	71,224	47,401
Incurred claims		51,354	61,553
Payments of claims attributable to events of both the current and prior fiscal years:			
Workers' compensation		(37,369)	(31,225)
Unemployment compensation		(3,386)	(3,148)
Court judgments		(1,967)	(3,357)
Judgments and claims, end of year	\$	<u>79,856</u>	<u>71,224</u>

The liabilities above have not been discounted to their present value. Incurred claims represent the total of a provision for events of the current fiscal year and any change in the provision for events of the prior fiscal years.

There are numerous pending matters and lawsuits in which the City is involved. The City attorneys estimate that the potential claims against the City not recorded in the accompanying basic financial statements resulting from such litigation would not materially affect the basic financial statements.

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

(17) Discretely Presented Component Units

The following presents condensed financial statements for each of the discretely presented component units:

Condensed Statements of Net Assets					
June 30, 2008					
(In thousands)					
	PHC	BRA	TPL	EDIC	Total
Assets:					
Current assets:					
Cash and investments	\$ 34,298	45,906	10,602	13,554	104,360
Cash and investments held by trustee	—	—	49,592	1,512	51,104
Receivables, net:					
Other	9,928	15,822	1,863	7,437	35,050
Other assets	8,993	113	1,978	2,699	13,783
Due from BMC	493	—	—	—	493
Due from primary government	250	—	—	—	250
Total current assets	<u>53,962</u>	<u>61,841</u>	<u>64,035</u>	<u>25,202</u>	<u>205,040</u>
Noncurrent assets:					
Notes receivable	4,834	69,780	—	—	74,614
Other assets	86,127	33,438	—	—	119,565
Capital assets:					
Nondepreciable	18,368	15,075	—	1,420	34,863
Depreciable	8,859	5,278	720	32,254	47,111
Total noncurrent assets	<u>118,188</u>	<u>123,571</u>	<u>720</u>	<u>33,674</u>	<u>276,153</u>
Total assets	<u>\$ 172,150</u>	<u>185,412</u>	<u>64,755</u>	<u>58,876</u>	<u>481,193</u>

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Condensed Statements of Net Assets

June 30, 2008

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Liabilities:					
Current liabilities:					
Warrants and accounts payable	\$ 12,300	3,430	1,439	4,086	21,255
Accrued liabilities:					
Other	—	—	173	2,188	2,361
Current portion of long-term debt and leases	—	—	—	1,145	1,145
Due to BMC	16,137	—	—	—	16,137
Due to primary government	8,857	—	466	—	9,323
Deferred revenue	1,469	2,838	—	885	5,192
Total current liabilities	38,763	6,268	2,078	8,304	55,413
Noncurrent liabilities:					
Bonds notes and leases due in more than one year	—	3,375	—	17,839	21,214
Other noncurrent liabilities	1,920	136,168	—	778	138,866
Other postemployment benefits obligation	15,570	966	—	—	16,536
Deferred revenue	5,345	34,904	—	—	40,249
Due to primary government	88,231	—	—	—	88,231
Total noncurrent liabilities	111,066	175,413	—	18,617	305,096
Total liabilities	149,829	181,681	2,078	26,921	360,509
Net assets:					
Invested in capital assets, net of related debt	25,448	8,397	720	16,202	50,767
Restricted	—	—	59,305	—	59,305
Unrestricted	(3,127)	(4,666)	2,652	15,753	10,612
Total net assets	\$ 22,321	3,731	62,677	31,955	120,684

CITY OF BOSTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2008

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

Year ended June 30, 2008

(In thousands)

	PHC	BRA	TPL	EDIC	Total
Expenses	\$ 142,025	25,824	16,811	34,476	219,136
Program revenues:					
Charges for services	9,335	7,381	1,055	14,506	32,277
Operating grants and contributions	46,056	6,155	13,611	15,133	80,955
Capital grants and contributions	3,564	—	—	—	3,564
Total program revenues	58,955	13,536	14,666	29,639	116,796
Net (expenses) revenues	(83,070)	(12,288)	(2,145)	(4,837)	(102,340)
General revenues:					
Investment income (loss)	1,813	1,647	(3,175)	540	825
Sale of property	—	5,734	—	—	5,734
City appropriation	67,440	—	—	—	67,440
Miscellaneous income	1,778	1,094	—	2,024	4,896
Total general revenues	71,031	8,475	(3,175)	2,564	78,895
Change in net assets	(12,039)	(3,813)	(5,320)	(2,273)	(23,445)
Net assets – beginning of year	34,360	7,544	67,997	28,225	138,126
Prior period adjustment	—	—	—	6,003	6,003
Net assets – end of year	\$ 22,321	3,731	62,677	31,955	120,684

CITY OF BOSTON, MASSACHUSETTS

Required Supplementary Information
(Unaudited)

(Dollar amounts in thousands)

Schedules of Funding Progress

Pension						
Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
01/01/07	\$ 4,138,146	6,223,154	2,085,008	66.5%	\$ 1,221,404	170.7%
01/01/06	3,836,807	5,957,373	2,120,566	64.4	1,168,808	181.4
01/01/05	3,587,118	5,664,288	2,077,170	63.3	1,115,529	186.2
01/01/04	3,384,814	5,420,842	2,036,028	62.4	1,067,492	190.7
01/01/03	3,204,893	5,121,319	1,916,426	62.6	1,099,779	174.3
01/01/02	3,371,716	4,796,130	1,424,414	70.3	1,052,420	135.3
OPEB						
06/30/07	\$ —	5,480,682	5,480,682	—%	\$ 669,802	818.3%

Schedule of Employers' Contributions – Pension

Year ended December 31:	Annual required contribution	Percentage contributed
2007	\$ 233,779	100%
2006	217,088	100
2005	191,132	100
2004	164,069	100
2003	157,064	100
2002	152,882	100

See accompanying independent auditors' report.

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EXHIBIT II

Schedules of Comparative Financial Statements for Fiscal Years 2008 - 2004

The following schedules of Comparative Balance Sheets and Statements of Revenues, Expenditures, Transfers and Fund Equity for the fiscal years ended June 30, 2008, 2007, 2006, 2005 and 2004 have been prepared by the City of Boston Auditing Department based on information taken from the City's audited financial statements.

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City of Boston

General Fund

BALANCE SHEETS
June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Cash and investments.....	\$ 756,652	\$ 738,650	\$ 663,547	\$ 692,679	\$ 609,638
Cash and investments held by trustee.....	-	-	-	-	-
Receivables:					
Property taxes.....	19,774	20,694	21,401	32,666	40,600
Motor vehicle excise.....	63,706	74,520	62,328	73,855	65,370
Intergovernmental.....	237,443	218,856	239,719	343,686	77,414
Departmental and other.....	66,398	42,999	33,146	31,742	34,361
Tax title and possession.....	81,437	78,105	76,178	75,379	79,641
Total receivables.....	<u>468,758</u>	<u>435,174</u>	<u>432,772</u>	<u>557,328</u>	<u>297,386</u>
Allowance:					
Abatement res/property tax allow.....	-	(823)	(3,891)	(16,950)	(28,001)
Tax title and possession.....	(81,437)	(78,105)	(76,178)	(75,379)	(79,641)
Motor vehicle excise.....	(58,690)	(58,280)	(56,876)	(56,179)	(54,611)
Other.....	(19,151)	(20,279)	(20,217)	(20,336)	(23,371)
Total allowances.....	<u>(159,278)</u>	<u>(157,487)</u>	<u>(157,162)</u>	<u>(168,844)</u>	<u>(185,624)</u>
Net receivable.....	309,480	277,687	275,610	388,484	111,762
Due from other funds.....	27,703	22,773	24,221	20,690	25,201
Due from component units.....	7,829	8,279	9,021	10,065	12,285
Other assets.....	-	-	-	-	333
Total assets.....	<u>\$ 1,101,664</u>	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 48,045	\$ 39,735	\$ 36,295	\$ 94,107	\$ 52,187
Accrued liabilities:					
Tax abatement refunds.....	-	-	-	-	-
Judgements and claims.....	-	-	-	-	-
Compensated absences.....	-	-	-	-	-
Payroll and related costs.....	103,737	106,741	88,189	100,798	94,784
Other.....	15,073	8,278	9,653	4,508	4,596
Due to other funds.....	4,382	6,989	3,266	1,945	2,144
Due to component units.....	250	256	250	84	180
Matured interest and bonds payable.....	-	-	-	-	-
Current portion of long-term debt.....	311	-	-	-	-
Deferred revenue.....	127,817	153,341	173,349	297,452	32,108
Total liabilities.....	<u>\$ 299,615</u>	<u>\$ 315,340</u>	<u>\$ 311,002</u>	<u>\$ 498,894</u>	<u>\$ 185,999</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances.....	32,519	38,617	44,573	33,155	56,132
Debt Service.....	-	-	-	-	-
Unreserved:					
Designated for subsequent year expenditures.....	216,429	198,098	178,157	164,621	139,986
Undesignated.....	553,101	495,334	438,667	415,248	377,102
Total fund balance.....	<u>802,049</u>	<u>732,049</u>	<u>661,397</u>	<u>613,024</u>	<u>573,220</u>
Total liabilities and fund balance.....	<u>\$ 1,101,664</u>	<u>\$ 1,047,389</u>	<u>\$ 972,399</u>	<u>\$ 1,111,918</u>	<u>\$ 759,219</u>

City of Boston

General Fund

**Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004
Partially Restated for Comparative Purposes
(in thousands)**

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:					
Local:					
Real and personal property taxes, net.....	\$ 1,316,734	\$ 1,258,878	\$ 1,190,347	\$ 1,138,254	\$ 1,082,574
Excises.....	115,809	99,816	107,361	93,906	85,354
Payments in lieu of taxes.....	56,667	56,146	60,584	42,218	42,373
Fines.....	67,940	67,546	67,876	65,280	66,342
Investment income.....	37,822	43,068	32,351	17,970	8,253
Licenses and permits.....	45,989	40,694	40,353	33,491	33,900
Departmental and other revenue.....	79,030	65,661	51,992	60,704	45,556
Total local revenues.....	<u>1,719,991</u>	<u>1,631,809</u>	<u>1,550,864</u>	<u>1,451,823</u>	<u>1,364,352</u>
Intergovernmental:					
Intergovernmental.....	493,227	484,510	557,418	460,898	459,836
Total intergovernmental revenues.....	<u>493,227</u>	<u>484,510</u>	<u>557,418</u>	<u>460,898</u>	<u>459,836</u>
Total revenues.....	<u>2,213,218</u>	<u>2,116,319</u>	<u>2,108,282</u>	<u>1,912,721</u>	<u>1,824,188</u>
EXPENDITURES:					
Current:					
General government.....	66,927	65,223	57,262	57,471	30,061
Human services.....	29,093	26,475	24,875	23,821	22,642
Public safety.....	509,293	477,403	446,784	457,541	390,854
Public works.....	108,831	97,897	101,441	106,749	87,045
Property and development.....	29,876	35,506	33,322	29,836	31,088
Parks and recreation.....	17,418	17,000	15,723	15,708	11,260
Library.....	27,089	31,225	28,365	27,594	24,089
Schools.....	782,500	743,848	719,715	673,009	656,291
Public Health Programs.....	67,694	64,559	61,282	60,586	58,762
County.....	-	-	-	-	-
Judgments and claims.....	1,967	2,257	11,590	6,620	(3,544)
Retirement costs.....	95,193	92,873	96,853	59,419	87,934
Other employee benefits.....	190,167	175,862	157,885	142,721	129,937
State and district assessments.....	132,792	124,243	118,817	115,894	111,061
Capital outlays.....	9,417	1,200	815	2,683	393
Debt Service.....	115,771	113,212	112,600	115,769	120,938
Total expenditures.....	<u>2,184,028</u>	<u>2,068,783</u>	<u>1,987,329</u>	<u>1,895,421</u>	<u>1,758,811</u>
Excess of revenues over expenditures.....	<u>29,190</u>	<u>47,536</u>	<u>120,953</u>	<u>17,300</u>	<u>65,377</u>
OTHER FINANCING SOURCES (USES):					
Payments to escrow agent to refund debt	-	(105)	-	(1,025)	(511)
Transfers in.....	40,810	23,221	(72,580)	23,529	17,000
Transfers out.....	-	-	-	-	-
Total other financing uses, net.....	<u>40,810</u>	<u>23,116</u>	<u>(72,580)</u>	<u>22,504</u>	<u>16,489</u>
Net change in fund balances.....	<u>70,000</u>	<u>70,652</u>	<u>48,373</u>	<u>39,804</u>	<u>81,866</u>
Fund balance, beginning of year, as previously reported	732,049	661,397	613,024	573,220	491,354
Cumulative change in accounting principle	-	-	-	-	-
Fund balance, beginning of year	<u>732,049</u>	<u>661,397</u>	<u>613,024</u>	<u>573,220</u>	<u>491,354</u>
Fund balance, end of year.....	<u>\$ 802,049</u>	<u>\$ 732,049</u>	<u>\$ 661,397</u>	<u>\$ 613,024</u>	<u>\$ 573,220</u>

City of Boston

General Fund - Budgetary Basis

Statement of Revenues, Transfers, Available Funds, Expenditures,
Encumbrances and Prior Years' Deficit Raised - Budget to Actual
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004

(in thousands)

	<u>2008</u>		<u>2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</u>	
	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)	Actual	Variance Fav. (Unfav.)
Revenues, Transfers and Other Available Funds										
Real and personal property taxes, net.....	\$ 1,295,460	\$ 308	\$ 1,224,171	\$ 515	\$ 1,167,342	\$ 559	\$ 1,106,336	\$ 1,307	\$ 1,052,067	\$ 205
Motor vehicle excise.....	49,632	9,557	34,500	(3,550)	50,178	11,628	44,763	12,713	33,207	(647)
Other excises.....	81,926	(2,574)	85,734	9,874	76,030	9,130	73,894	6,994	61,062	1,312
Commonwealth of Massachusetts.....	598,747	7,008	576,372	4,040	549,777	3,615	537,655	14,313	521,231	16,612
Departmental and other revenue.....	67,379	14,392	62,676	17,915	54,116	13,128	53,142	14,660	50,960	13,766
Fines.....	67,391	(369)	66,975	965	67,611	3,011	65,280	3,436	66,342	6,392
Payments in lieu of taxes.....	56,667	3,711	56,146	8,592	60,584	13,769	42,218	2,219	42,373	4,763
Investment income.....	39,512	2,012	43,471	10,671	30,049	7,243	17,787	10,487	7,792	3,412
Licenses and permits.....	47,577	5,248	41,432	8,705	38,755	11,575	33,821	8,471	34,821	13,791
Transfers from other available funds.....	38,818	(4,992)	10,721	(18,481)	9,810	(31,526)	5,529	(23,376)	22,932	(18,876)
Sale of property.....	-	-	-	-	-	-	-	-	-	-
Total revenues, transfers and other available funds.....	<u>2,343,109</u>	<u>34,301</u>	<u>2,202,198</u>	<u>39,246</u>	<u>2,104,252</u>	<u>42,132</u>	<u>1,980,425</u>	<u>51,224</u>	<u>1,892,787</u>	<u>40,730</u>
Expenditures and Encumbrances										
General government.....	102,837	1,313	78,366	645	60,933	1,418	59,837	598	75,925	(13,317)
Human services.....	29,116	2	26,394	19	24,950	69	23,853	133	22,945	173
Public safety.....	495,425	(16,510)	477,595	(20,890)	451,997	(21,815)	429,376	(20,714)	393,826	(5,025)
Public works.....	107,629	(4,613)	98,748	44	101,996	(1,324)	106,699	(14,247)	87,639	(2,330)
Property and development.....	31,453	66	33,991	105	36,225	150	25,425	55	26,400	114
Parks and recreation.....	17,374	87	16,707	265	15,629	230	15,179	292	13,437	270
Library.....	29,601	2	28,550	57	27,712	1	26,600	1	24,086	-
Schools.....	795,488	10	747,462	24	717,793	16	680,181	26	656,539	8
Boston Public Health Commission.....	68,195	-	63,798	-	61,300	-	60,568	-	58,762	-
County.....	-	-	-	-	-	-	-	-	4,533	-
Judgments and claims.....	3,500	-	7,107	(3,607)	10,497	(6,997)	10,884	(7,384)	18,842	(15,342)
Other employee benefits.....	191,032	38	177,087	(696)	159,058	(56)	147,803	(1,648)	133,206	(830)
Retirement costs.....	207,049	56	197,574	-	190,885	100	151,463	-	141,867	-
State and district assessments.....	132,792	561	124,243	-	118,817	(416)	115,894	(25)	106,509	(66)
Debt requirements.....	115,771	534	109,364	-	112,599	353	118,330	22	123,866	-
Total expenditures.....	<u>2,327,262</u>	<u>(18,454)</u>	<u>2,186,986</u>	<u>(24,034)</u>	<u>2,090,391</u>	<u>(28,271)</u>	<u>1,972,092</u>	<u>(42,891)</u>	<u>1,888,402</u>	<u>(36,345)</u>
Excess of revenues available for appropriation over expenditures.....	<u>\$ 15,847</u>	<u>\$ 15,847</u>	<u>\$ 15,212</u>	<u>\$ 15,212</u>	<u>\$ 13,861</u>	<u>\$ 13,861</u>	<u>\$ 8,333</u>	<u>\$ 8,333</u>	<u>\$ 4,385</u>	<u>\$ 4,385</u>

City of Boston

Special Revenue Fund

BALANCE SHEETS
June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Cash and investments.....	\$ 157,774	\$ 153,759	\$ 158,601	\$ 123,608	\$ 116,283
Restricted cash and investments.....	-	-	-	-	-
Receivables (net, where applicable, of allowances for estimated uncollectible amounts)					
Intergovernmental.....	95,246	102,359	103,307	103,493	116,216
Departmental and other.....	59,167	55,264	73,689	75,439	-
Total receivables.....	<u>154,413</u>	<u>157,623</u>	<u>176,996</u>	<u>178,932</u>	<u>116,216</u>
Due from other funds.....	2,510	4,863	2,682	1,363	1,499
Other assets.....	-	-	-	-	1
Total assets.....	<u>\$ 314,697</u>	<u>\$ 316,245</u>	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 22,802	\$ 14,549	\$ 11,452	\$ 14,752	\$ 32,532
Accrued liabilities:					
Payroll and related costs.....	7,586	1,345	1,366	1,534	-
Other.....	30,757	21,963	28,646	28,162	34,401
Due to component units.....	-	-	-	-	-
Deferred revenue.....	58,884	55,264	73,689	75,439	-
Due to other funds.....	4,603	2,792	6,219	2,690	8,201
Total liabilities.....	<u>124,632</u>	<u>95,913</u>	<u>121,372</u>	<u>122,577</u>	<u>75,134</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	46,022	65,928	67,116	51,090	34,738
Unreserved:					
Designated.....	-	-	-	-	-
Undesignated.....	144,043	154,404	149,791	130,236	124,127
Total fund balance.....	<u>190,065</u>	<u>220,332</u>	<u>216,907</u>	<u>181,326</u>	<u>158,865</u>
Total liabilities and fund balance.....	<u>\$ 314,697</u>	<u>\$ 316,245</u>	<u>\$ 338,279</u>	<u>\$ 303,903</u>	<u>\$ 233,999</u>

City of Boston

Special Revenue Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:					
Local:					
Fines.....	\$ 150	\$ 11	\$ 18	\$ 17	\$ 19
Investment income.....	545	482	351	282	175
Licenses and permits.....	60	65	71	74	70
Departmental and other revenue.....	29,596	48,699	45,894	52,882	26,374
Total local revenues.....	<u>30,351</u>	<u>49,257</u>	<u>46,334</u>	<u>53,255</u>	<u>26,638</u>
Intergovernmental:					
Intergovernmental.....	342,464	348,816	377,471	332,331	356,555
Total intergovernmental revenues.....	<u>342,464</u>	<u>348,816</u>	<u>377,471</u>	<u>332,331</u>	<u>356,555</u>
Total revenues.....	<u>372,815</u>	<u>398,073</u>	<u>423,805</u>	<u>385,586</u>	<u>383,193</u>
EXPENDITURES:					
Current operations:					
General government.....	10,084	7,394	4,684	22,548	3,175
Human services.....	9,482	8,556	10,009	8,678	9,337
Public safety.....	21,086	28,578	30,004	24,338	21,052
Public works.....	13,207	9,042	8,961	2,719	286
Parks and recreation.....	510	354	384	1,001	1,230
Libraries.....	4,962	5,166	5,670	5,579	5,409
Schools.....	149,069	154,774	149,685	134,992	124,356
County.....	121,180	114,218	106,270	101,832	102,044
Public health.....	700	774	1,985	1,710	86
Property & development.....	72,806	66,893	71,749	57,154	86,599
Capital outlays.....	2,993	2,353	1,695	805	1,891
Debt service.....	-	-	-	3,879	3,054
Total expenditures.....	<u>406,079</u>	<u>398,102</u>	<u>391,096</u>	<u>365,235</u>	<u>358,519</u>
Excess (deficiency) of revenues over expenditures.....	<u>(33,264)</u>	<u>(29)</u>	<u>32,709</u>	<u>20,351</u>	<u>24,674</u>
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	5,050	76	-	1,381	15,000
Premiums on long-term debt issued.....	8,402	4,378	3,872	10,409	11,775
Payments to escrow agents.....	(455)	-	-	(6,180)	(4,096)
Transfers out, net.....	(10,000)	(1,000)	(1,000)	(3,500)	-
Total other financing sources (uses), net.....	<u>2,997</u>	<u>3,454</u>	<u>2,872</u>	<u>2,110</u>	<u>22,679</u>
Net change in fund balances.....	(30,267)	3,425	35,581	22,461	47,353
Fund balance, beginning of year.....	220,332	216,907	181,326	158,865	111,512
Fund balance, end of year.....	<u>\$ 190,065</u>	<u>\$ 220,332</u>	<u>\$ 216,907</u>	<u>\$ 181,326</u>	<u>\$ 158,865</u>

City of Boston

Capital Projects Fund

BALANCE SHEETS

June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Cash and investments.....	\$ 20,979	\$ 25,926	\$ 24,221	\$ 31,910	\$ 82,694
Cash and investments held by trustees.....	2,346	2,828	4,209	2,429	3,094
Receivables (net, where applicable, of allowances for estimated uncollectible amounts):					
Intergovernmental.....	53,482	11,578	4,016	3,005	-
Departmental and other.....	-	-	-	-	-
Total receivables.....	<u>53,482</u>	<u>11,578</u>	<u>4,016</u>	<u>3,005</u>	<u>-</u>
Due from other funds.....	1,379	1,591	-	-	-
Other assets.....	-	-	-	-	-
Total assets.....	<u>\$ 78,186</u>	<u>\$ 41,923</u>	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>
LIABILITIES					
Warrants and accounts payable.....	\$ 30,001	\$ 11,677	\$ 5,786	\$ 3,493	\$ 4,560
Other accrued liabilities.....	192	6,352	8,510	15,219	25,951
Other liabilities.....	-	-	-	-	-
Deferred revenue.....	48,974	11,578	3,306	-	-
Due to other funds.....	-	-	-	-	-
Due to other governments.....	-	-	-	-	-
Total liabilities.....	<u>79,167</u>	<u>29,607</u>	<u>17,602</u>	<u>18,712</u>	<u>30,511</u>
FUND BALANCES AND OTHER CREDITS					
Reserved for:					
Encumbrances and other.....	79,677	121,437	71,727	84,471	50,821
Future appropriations.....	30,087	35,756	43,756	43,724	50,374
Unreserved:					
Undesignated (deficit).....	(110,745)	(144,877)	(100,639)	(109,563)	(45,918)
Total fund balance.....	<u>(981)</u>	<u>12,316</u>	<u>14,844</u>	<u>18,632</u>	<u>55,277</u>
Total liabilities and fund balance.....	<u>\$ 78,186</u>	<u>\$ 41,923</u>	<u>\$ 32,446</u>	<u>\$ 37,344</u>	<u>\$ 85,788</u>

City of Boston

Capital Projects Fund

Statement of Revenues, Expenditures, Other Financing
Sources (Uses) and Changes in Fund Balance
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES:					
Local:					
Investment income.....	\$ -	\$ -	\$ -	\$ -	\$ -
Departmental and other revenue.....	-	-	3,864	3,065	7,985
Total local revenues.....	-	-	3,864	3,065	7,985
Intergovernmental:					
Intergovernmental.....	14,701	10,177	9,538	8,800	10,917
Total intergovernmental revenues.....	14,701	10,177	9,538	8,800	10,917
Total revenues.....	14,701	10,177	13,402	11,865	18,902
EXPENDITURES:					
Capital outlays.....	170,834	127,860	103,305	87,974	132,562
Debt Service.....	-	-	97,446	-	-
Total expenditures.....	170,834	127,860	200,751	87,974	132,562
Excess (deficiency) of revenues over expenditures.....	(156,133)	(117,683)	(187,349)	(76,109)	(113,660)
OTHER FINANCING SOURCES (USES):					
Long-term debt and capital leases issued.....	176,615	200,400	89,871	136,003	147,986
Payments to escrow agent to refund debt.....	(28,110)	(85,245)	-	(96,539)	(35,819)
Transfers out.....	(5,669)	-	93,690	-	-
Total other financing sources, net.....	142,836	115,155	183,561	39,464	112,167
SPECIAL ITEM:					
Proceeds from sale of capital assets.....	-	-	-	-	-
Net change in fund balances.....	(13,297)	(2,528)	(3,788)	(36,645)	(1,493)
Fund balance, beginning of year	12,316	14,844	18,632	55,277	56,770
Fund balance, end of year.....	<u>\$ (981)</u>	<u>\$ 12,316</u>	<u>\$ 14,844</u>	<u>\$ 18,632</u>	<u>\$ 55,277</u>

City of Boston

Internal Service Fund

BALANCE SHEETS
June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Cash and cash equivalents.....	\$ 51,640	\$ 43,417	\$ 34,624	\$ 30,555	\$ 19,702
Receivables:					
Departmental and other receivables....	317	283	107	154	295
Due from other funds and sources.....	493	554	582	582	645
Due from component units.....	-	115	54	-	41
Other assets.....	4,856	3,910	1,825	1,873	1,980
Total assets.....	<u>\$ 57,306</u>	<u>\$ 48,279</u>	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>
LIABILITIES					
Accrued Liabilities:					
Warrants and accounts payable.....	\$ 22	\$ 46	\$ 32	\$ 39	\$ 17
Accrued liabilities.....	7,436	6,827	6,593	6,465	6,114
Total liabilities.....	<u>7,458</u>	<u>6,873</u>	<u>6,625</u>	<u>6,504</u>	<u>6,131</u>
FUND EQUITY					
Unrestricted.....	49,848	41,406	30,567	26,660	16,532
Total fund equity.....	<u>49,848</u>	<u>41,406</u>	<u>30,567</u>	<u>26,660</u>	<u>16,532</u>
Total liabilities and fund equity...	<u>\$ 57,306</u>	<u>\$ 48,279</u>	<u>\$ 37,192</u>	<u>\$ 33,164</u>	<u>\$ 22,663</u>

City of Boston
Internal Service Fund

Statement of Revenues, Expenditures, and Changes in Fund Equity
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
REVENUES					
Employer contributions.....	\$ 72,204	\$ 72,933	\$ 67,786	\$ 68,861	\$ 61,406
Employee contributions.....	25,021	26,962	22,379	23,951	22,886
Miscellaneous.....	-	-	-	-	36
Total operating revenues.....	<u>97,225</u>	<u>99,894</u>	<u>90,165</u>	<u>92,812</u>	<u>84,328</u>
EXPENDITURES					
Administrative and general.....	-	-	-	-	-
Benefits.....	88,783	89,055	86,258	82,684	75,726
Total operating expenditures...	<u>88,783</u>	<u>89,055</u>	<u>86,258</u>	<u>82,684</u>	<u>75,726</u>
Changes in net assets	8,442	10,839	3,907	10,128	8,602
Net assets (deficit), beginning of year.....	41,406	30,567	26,660	16,532	7,930
Net assets, end of year.....	<u>\$ 49,848</u>	<u>\$ 41,406</u>	<u>\$ 30,567</u>	<u>\$ 26,660</u>	<u>\$ 16,532</u>

City of Boston

Enterprise Funds

BALANCE SHEETS

Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004
(in thousands)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
ASSETS					
Current assets:					
Cash and investments.....	\$ 80	\$ 272	\$ -	\$ -	\$ 525
Cash and investments held by trustees.....	79,681	60,638	56,596	50,010	45,985
Receivables, net.....	210	-	-	-	-
Due from component units.....	89,725	96,873	103,751	110,370	116,739
Due from other governments.....	-	-	2,141	-	-
Other assets.....	2,427	2,613	2,801	2,987	3,174
Total current assets.....	<u>172,123</u>	<u>160,396</u>	<u>165,289</u>	<u>163,367</u>	<u>166,423</u>
Total assets.....	<u>\$ 172,123</u>	<u>\$ 160,396</u>	<u>\$ 165,289</u>	<u>\$ 163,367</u>	<u>\$ 166,423</u>
LIABILITIES					
Current liabilities:					
Warrants and accounts payable.....	\$ -	\$ -	\$ 5,240	\$ -	\$ -
Accrued liabilities.....	-	-	-	-	-
Due to other funds.....	23,000	20,000	18,000	18,000	17,000
Other liabilities.....	2,595	2,734	2,842	2,946	3,046
Current portion of long-term debt.....	10,360	9,920	9,565	9,220	8,905
Total current liabilities.....	<u>35,955</u>	<u>32,654</u>	<u>35,647</u>	<u>30,166</u>	<u>28,951</u>
Noncurrent liabilities:					
Special obligation bonds.....	97,085	100,485	103,715	106,785	109,700
Revenue bonds.....	90,080	97,265	104,178	110,898	117,426
Total noncurrent liabilities.....	<u>187,165</u>	<u>197,750</u>	<u>207,893</u>	<u>217,683</u>	<u>227,126</u>
Total liabilities.....	<u>223,120</u>	<u>230,404</u>	<u>243,540</u>	<u>247,849</u>	<u>256,077</u>
NET ASSETS					
Unrestricted.....	(50,997)	(70,008)	(78,251)	(84,482)	(89,654)
Total net assets.....	<u>\$ (50,997)</u>	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>	<u>\$ (84,482)</u>	<u>\$ (89,654)</u>

City of Boston

Enterprise Funds

Statement of Revenues, Expenditures, and Changes in Net Assets
Fiscal Years Ending June 30, 2008, 2007, 2006, 2005 and 2004

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating revenues:					
Excise taxes - pledged for debt service.....	\$ 40,342	\$ 35,092	\$ 30,503	\$ 28,028	\$ 23,845
Departmental and other - pledged for debt service.....	-	-	2,141	-	3,326
Total operating revenues.....	<u>40,342</u>	<u>35,092</u>	<u>32,644</u>	<u>28,028</u>	<u>27,171</u>
Operating expenditures:					
Contributions to State.....	-	-	5,240	84	32,890
Total operating expenses.....	<u>-</u>	<u>-</u>	<u>5,240</u>	<u>84</u>	<u>32,890</u>
Operating (loss) income.....	<u>40,342</u>	<u>35,092</u>	<u>27,404</u>	<u>27,944</u>	<u>(5,719)</u>
Nonoperating revenue (expenditure):					
Intergovernmental - state grants.....	1,196	1,152	1,396	297	20,930
Investment earnings - pledged for debt service.....	8,506	730	5,145	5,293	5,595
Investment earnings - other.....	1,290	1,450	775	823	58
Interest expense.....	(9,323)	(10,181)	(10,489)	(11,185)	(10,936)
Total nonoperating revenue (expense).....	<u>1,669</u>	<u>(6,849)</u>	<u>(3,173)</u>	<u>(4,772)</u>	<u>15,647</u>
Income before transfers.....	42,011	28,243	24,231	23,172	9,928
Transfer to general fund.....	<u>(23,000)</u>	<u>(20,000)</u>	<u>(18,000)</u>	<u>(18,000)</u>	<u>(17,000)</u>
Change in net assets.....	<u>19,011</u>	<u>8,243</u>	<u>6,231</u>	<u>5,172</u>	<u>(7,072)</u>
Total net assets - beginning.....	<u>(70,008)</u>	<u>(78,251)</u>	<u>(84,482)</u>	<u>(89,654)</u>	<u>(82,582)</u>
Total net assets - ending.....	<u>\$ (50,997)</u>	<u>\$ (70,008)</u>	<u>\$ (78,251)</u>	<u>\$ (84,482)</u>	<u>\$ (89,654)</u>

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SELECTED DEMOGRAPHIC AND ECONOMIC INFORMATION

The following report has been prepared by the Boston Redevelopment Authority (the "BRA") for inclusion in the Official Statement. The report describes the principal components of the economy of the City and presents major economic, demographic and market indicators, and historical, statistical and other information.

This report contains forecasts, projections and estimates that are based on expectations and assumptions which existed at the time such forecasts, projections and estimates were prepared. In light of the important factors that may materially affect economic conditions of the City, the inclusion in this report of such forecasts, projections and estimates should not be regarded as a representation of the BRA or the City that such forecasts, projections and estimates will occur.

The information contained herein has been furnished by the BRA and certain information has been obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation of the underwriters of the Bonds or, as to information from other sources, of the BRA or the City.

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THE BOSTON ECONOMY

The City is the twenty-first largest city in the United States and the economic hub of The Commonwealth of Massachusetts (the "Commonwealth") and the New England region. It is a center for professional, business, financial, governmental, higher educational and medical services, as well as for transportation, communications, export, cultural and entertainment activities. As a government center, the City is the capital of the Commonwealth and is host to several federal regional offices. High technology, research and development, financial services, manufacturing, and wholesale distribution also contribute to the economy of the City and its suburbs.

In 2007 the City had a population of 608,352, as estimated by the U.S. Department of Commerce Bureau of the Census (the "Bureau of the Census"), and had 675,624 jobs, as stated in a series for Boston consistent with the U.S. Department of Commerce, Bureau of Economic Analysis (the "Bureau of Economic Analysis") for Suffolk County pro-rated for Boston (employment in 2008 is estimated at 682,375). The ratio of jobs to population indicates that the City provides a direct source of employment and income for an area that extends well beyond its borders. Measured in terms of jobs, the City's economy comprises approximately 18% of the Massachusetts economy and 7% of that of the six New England states.

Overview of Recent Economic Conditions

The City of Boston's economy had experienced moderate growth from 2004 through much of 2008 particularly its labor market, whereby roughly 44,000 jobs were added during the time period. Beginning in the final few months of 2008, however, the City began to experience rising unemployment and much of the same deteriorating economic conditions as the U.S. as a whole. As the national economy began to experience rising unemployment and more rapidly deteriorating economic conditions beginning in the spring 2008, Boston continued to add jobs at a moderate pace. It wasn't until November 2008 that Boston began to show signs of a weakening labor market and the same deteriorating conditions then prevalent in the rest of the country. Up to the present, however, conditions remain worse at the national level than in Boston; the U.S. unemployment rate is higher than Boston's, the nation's level of job loss has been greater, and although Boston's real estate markets have been experiencing rising vacancy rates and a correction in prices for several months, it is still outperforming most other major real estate markets in the U.S.

Unemployment rates, which had been as low as 3.9% as recently as the final months of 2007 in the City reached 6.0% in December 2008. The national unemployment rate, which was in the 4.3% to 5.0% range throughout 2007, reached 7.1% in December 2008. Massachusetts and New England also had higher unemployment rates than the City of Boston: 6.5% and 6.6% respectively, in December 2008. Boston's office market, which strengthened from 2005 through 2007 with lower vacancy rates, less available space, and positive absorption experienced a downward shift during the last two quarters of 2008. Similarly, hotels after several years of improving performance have also shown declines; the hotel occupancy rate went from 69.6% in 2001 to 76.1% in 2007, but then fell to 75.1% in 2008. The housing market, hurt by rising foreclosures and the tight lending market, has experienced weakened sales volumes and small to moderate drops in prices. Boston, however, has not experienced the same level of price declines experienced in many other large markets across the U.S. where over-building is more prevalent.

Statistical Data

Statistical data relating to population, employment and income are derived primarily from five separate sources: the Bureau of the Census, the Bureau of Economic Analysis, the U.S. Department of Labor Bureau of Labor Statistics (the "Bureau of Labor Statistics"), and the City and the Boston Redevelopment Authority (the "BRA"), each of which is described below.

The Bureau of the Census publishes information about population, housing and the economy. All data from the 2000 Decennial Census of Population and Housing are now available. In addition, some monthly and quarterly data are available through December 2008 on certain topics for the region, the Commonwealth, and Metropolitan Boston. The Bureau of the Census does not publish such interim data for the City.

The Bureau of Economic Analysis publishes quarterly and annual statistics on income and employment. The most recent annual figures for the nation, New England, Massachusetts, Metropolitan Boston and Suffolk County are for 2007. The most recent quarterly statistics are for the fourth quarter of

2008. The City accounts for approximately 87% of Suffolk County's population and approximately 96% of its employment.

The Bureau of Labor Statistics publishes data and reports about the workforce and related subjects including unemployment rates, area wages, and cost-of-living adjustments. Final data for 2007 are the most recent annual data available. The most recent monthly data are for December 2008.

The City and the BRA prepare reports and compile data on the population and economy of the City and its neighborhoods. The BRA also provides data and trends obtained from various local, regional, state and national sources from both the public and private sectors on such topics as employment and occupation, large employers, City schools, universities and colleges, medical institutions, tourism and lodging, transportation, office and industrial markets, housing, building activity and urban redevelopment and infrastructure projects.

The statistical data contained in this report do not necessarily reflect current activity because of delays resulting from the time required to collect, tabulate and publish such data. While the City believes that it has used the most recent data readily available to it in this report, the data contained herein may not reflect current conditions or trends because of such delays. Moreover, statistical data are approximations and generalizations subject to various sources of error inherent in the statistical process, and may be revised on the basis of additional data. The statistical data contained herein describes past activity and are not presented in order to suggest the continuation of any trend, or to predict future economic activity either in particular categories or in general.

Population, Income and Employment

The Bureau of the Census reported the City's population as 589,141 in 2000, a 2.6% increase over 1990 and building on the 2.0% increase in the 1980s. The number of households in the City increased from 218,457 in 1980, to 228,464 in 1990, and to 239,528 in 2000, while household size fell from 2.4 to 2.3 persons per household from 1980 to 2000. The Bureau of the Census population for Massachusetts in 2000 was 6,349,097, or an increase of 332,672 persons (5.5%) from the 1990 census. The population of Metropolitan Boston (as defined below) rose to 4,391,344 in 2000, an increase of 257,449 persons or 6.2% over the decade.

Boston's population for 2007 was estimated by the U. S. Census Bureau to be 608,352 which showed an increase of 3.3% from the count of 589,141 in 2000. The Bureau of the Census has also released 2007 population data for states and metropolitan areas. The population of Massachusetts as of July 1, 2007 is estimated to have been 6,449,755, a gain of 1.6% over that for April 2000. The population of Metropolitan Boston for July 1, 2007 is estimated to have been 4,482,857, an increase of 90,913 residents from the 2000 census, a gain of 2.1%.

**Population of Massachusetts, Metropolitan Boston
and the City of Boston 1980, 1990, 2000 and 2007**

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2007</u>	<u>1980-90</u>		<u>1990-2000</u>		<u>2000-07</u>	
					<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>	<u>Population</u>	<u>Percent</u>
Massachusetts	5,737,037	6,016,425	6,349,097	6,449,755	279,388	4.9%	332,672	5.5%	99,648	1.6%
Metropolitan Boston ⁽¹⁾	N/A	4,133,895	4,391,344	4,482,857	N/A	N/A	257,449	6.2	90,913	2.1
City of Boston	562,994	574,283	589,141	608,352	11,289	2.0%	14,858	2.6	19,211	3.3

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area; as defined by the Office of Management and Budget (OMB).

Source: Bureau of the Census.

The 2000 Census showed that Boston's racial composition was: White, Non-Hispanic 49.5%; Black, Non-Hispanic 23.8%; Hispanic 14.4%; Asian/Pacific Islander 7.5%; Multi-racial 3.1%; other single race 1.4%; and Native American 0.3%. The American Community Survey, from the US Census, shows that the racial make-up of the City has not changed significantly from the 2000 Census, but does indicate that the proportions of Hispanic and Asian are slightly higher while the proportion of Black, Non-Hispanic is down slightly. Boston continues to be a city of young adults due to the large number of students and young adults living and working in the City close to one out of every three persons in Boston is between 20 and 34 years old. The baby boom population (aged 35 to 54 years) increased significantly, to 20%, as that cohort aged and continued to show a preference for city living. The City saw a decline in the elderly population (aged 65 and over) between 1990 and 2000 as that segment declined by nearly 5,000 people to 10% of the population. Boston showed a general rise in the number of children as that population (aged 18 and under) increased by over 6,700 persons to 20% of the population. The trend toward fewer families of related people living together to more non-family households comprised of single persons and roommates, continued in Boston in the 1990s. There was also a trend toward more "non-traditional" families as the data showed more relatives and non-relatives other than the householder and spouse living in families. Overall, the total number of households rose. Single-person households continued to grow. Families with children under 18 also grew, although married couples with young children fell because of the continued trend toward single-parent families with children. Children over 18 living with their families showed an upward trend as college students commuted in increasing numbers, and the cost of housing kept older children at home longer. Group quarters population continued to increase both for the institutionalized and non-institutionalized populations, the vast majority of which is the student dormitory population. Household size declined by 2.5%, going from 2.37 to 2.31 persons despite the large growth in single person households. Average family size edged only marginally lower from 3.19 to 3.17 persons.

The following table shows the 2002-2007 population, income and employment trends for the U.S., New England, Massachusetts, and Metropolitan Boston.

The six-state New England region had a combined population of 14.3 million people and 9.2 million jobs in 2007 according to Bureau of Economic Analysis annual data. Total personal income in New England grew at an annual average compound rate of 5.0% from 2002 through 2007, below the 5.6% national rate for the same period. Employment in New England grew by 387,374 jobs from 2002 through 2007, an annual average of 0.9%.

Massachusetts had a population of 6.4 million people and 4.2 million jobs in 2007, according to Bureau of Economic Analysis annual data. Total personal income in Massachusetts grew at a 4.9% annual average rate from 2002 through 2007, slightly less than the 5.0% rate of increase for New England, and below the national rate of 5.6%. Massachusetts gained 140,515 jobs between 2002 and 2007, an annual average of 0.7%.

The Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area, defined by the Office of Management and Budget (OMB) to include Essex, Middlesex, Norfolk, Plymouth, and Suffolk counties in Massachusetts, and Rockingham and Strafford counties in New Hampshire ("Metropolitan Boston"), had 4.5 million people and 3.1 million jobs in 2006. Total personal income from 2002 through 2006 grew at an annual average rate of 4.6%, below the national mark of 5.5%. The most recent employment data show a gain of 107,892 jobs for the 2002-2006 period, an annual rate of 0.9%.

**Population, Income and Employment
2002-2007**

(Income in current year dollars)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
United States						
Total Personal Income (\$000)	\$8,872,871,000	\$9,150,320,000	\$9,711,363,000	\$10,252,849,000	\$10,977,312,000	\$11,631,571,000
Per Capita Income	\$30,821	\$31,504	\$33,123	\$34,650	\$36,744	\$38,564
Population	287,888,021	290,447,644	293,191,511	295,895,897	298,754,819	301,621,157
Employment	166,633,100	167,553,500	170,512,700	174,216,400	177,815,600	180,941,800
New England						
Total Personal Income (\$000)	\$528,029,789	\$538,412,941	\$569,244,199	\$593,016,731	\$634,479,796	\$674,064,725
Per Capita Income	\$37,364	\$37,950	\$40,058	\$41,711	\$44,558	\$47,256
Population	14,132,165	14,187,489	14,210,396	14,217,418	14,239,292	14,264,185
Employment	8,775,999	8,755,319	8,898,449	9,025,682	9,089,937	9,163,373
Massachusetts						
Total Personal Income (\$000)	\$249,954,238	\$253,993,468	\$266,635,158	\$278,734,060	\$298,320,567	\$316,954,196
Per Capita Income	\$38,862	\$39,449	\$41,444	\$43,355	\$46,363	\$49,142
Population	6,431,788	6,438,510	6,433,676	6,429,137	6,434,389	6,449,755
Employment	4,064,943	4,032,093	4,074,096	4,127,562	4,163,140	4,205,458
Metropolitan Boston⁽¹⁾						
Total Personal Income (\$000)	\$188,434,021	\$190,707,890	\$200,371,330	\$211,564,728	\$225,705,104	NA
Per Capita Income	\$42,285	\$42,794	\$44,988	\$47,491	\$50,542	NA
Population	4,456,292	4,456,462	4,453,867	4,454,814	4,465,674	NA
Employment	3,012,650	2,977,001	3,004,301	3,054,245	3,120,542	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: Bureau of Economic Analysis, February 2009. Bureau of the Census, population figures for Massachusetts and Metropolitan Boston.

Employment Structure, Employment Trends and Occupational Changes

The economy of Metropolitan Boston rests primarily on high technology, finance, professional and business services, defense, and educational and medical institutions. The City's economy is more specialized in the financial, governmental, business and professional services, and educational and medical sectors, than the suburban economy, which is more specialized in high technology and the defense industry.

The table below shows Boston's employment growth by industry category for 2006, 2007, and 2008. The industry categories are in the new North American Industrial Classification System (NAICS) format, which the Bureau of Economic Analysis began using in 2001. Employment data from the U.S. Bureau of Economic Analysis is through 2006. Suffolk County data is mathematically reduced to the Boston geography using unemployment insurance coverage data (ES-202) from the Massachusetts Department of Workforce Development ("DWD").

Employment trends for 2006 through 2008 for Boston show that 23,869 jobs were added in two years, a 3.6% rate of change. Health care, accommodation and food services, professional services, and arts, entertainment, and recreation show the largest gains.

City of Boston Employment 2006 – 2008
NAICS (North American Industry Classification System)

Industry	2006	2007*	2008**	Absolute Change	Percent Change
Fishing/Mining/Agriculture.....	117	115	201	86	75.1
Utilities	2,087	2,139	2,180	93	4.4
Construction	17,360	17,436	17,233	-127	-0.7
Manufacturing.....	11,952	10,450	10,345	-1,607	-13.4
Wholesale Trade.....	9,543	10,251	10,558	1,015	10.6
Retail Trade (excludes food service)	32,017	31,974	32,377	361	1.1
Transportation and Warehousing.....	18,357	19,695	20,182	1,825	9.9
Transportation.....	17,318	18,654	18,725	1,407	8.1
Information	17,520	16,850	16,842	-679	-3.9
Finance and Insurance	79,915	82,517	82,037	2,122	2.7
Banking.....	20,228	21,331	21,860	1,632	8.1
Securities and other Financial Investment Activities.....	40,023	41,741	40,662	638	1.6
Insurance Carriers and Related Activities.....	19,664	19,445	19,514	-150	-0.8
Real Estate and Rental and Leasing	21,730	21,392	21,338	-396	-1.8
Professional, Scientific, and Technical Services.....	73,503	74,933	76,814	3,311	4.5
Legal Services	20,737	21,116	21,364	627	3.0
Accounting, Tax Preparation, Bookkeeping.....	9,868	9,782	9,581	-287	-2.9
Architectural, Engineering, Design, and Related.....	9,365	9,702	10,015	650	6.9
Computer Systems Design and Related Services.....	6,195	6,901	7,541	1,346	21.7
Management, Scientific, and Technical.....	13,178	12,398	13,014	-164	-1.2
Scientific Research and Development Services.....	7,617	8,036	8,286	669	8.8
Other Professional, Scientific and Technical Serv.....	6,544	6,998	7,013	469	7.2
Management of Companies and Enterprises	7,502	7,294	7,010	-492	-6.6
Admin. & Support and Waste Mgmt. and Remediation Service	42,404	45,350	43,916	1,512	3.6
Educational Services	49,786	50,611	51,736	1,950	3.9
Colleges and Universities	42,728	43,259	44,104	1,376	3.2
Health Care and Social Assistance	111,007	116,748	117,914	6,907	6.2
Hospitals.....	75,840	80,865	81,426	5,587	7.4
Arts, Entertainment, and Recreation	13,123	13,964	15,343	2,220	16.9
Accommodation and Food Services	45,538	47,261	48,967	3,429	7.5
Accommodation.....	10,564	11,044	11,401	837	7.9
Food Service and Drinking Places	34,973	36,216	37,565	2,592	7.4
Other Services (except public administration) ⁽¹⁾	28,121	29,090	29,760	1,638	5.8
Government.....	76,925	77,553	77,623	698	0.9
Total	658,505	675,624	682,375	23,869	3.6

* 2007 is an estimate based on annual data from DWD and an estimate from the Bureau of Economic Analysis (based on 2006 data).

** 2008 is an estimate based on two quarters of data from DWD and an estimate from the Bureau of Economic Analysis (based on 2006 data).

(1) Other Services includes repair and maintenance, personal and laundry services, and religious, grant-making, civic, professional, and similar organizations.

Source: The employment figures are from the Bureau of Economic Analysis Series for Suffolk County, pro-rated to the City's geographical boundary using data from the Massachusetts Department of Workforce Development ("DWD"). See the footnotes above. Due to use of pro-rating factors, minor discrepancies of 1 to 3 units between totals and employment categories may result.

A more recent picture of employment trends for the Commonwealth and Metropolitan Boston is available from the Bureau of Labor Statistics non-agricultural employment data. As of early February 2009 data through the month of December 2008 was available, and are presented in the following tables. Data from the following tables shows that employment grew every month relative to the same month from the previous year since January 2006, until November 2008 when employment began to decline relative to the previous year. In fact, the historical data shows this to be the case in every year since June 2004. In December 2008 a loss of 20,300 jobs in Metropolitan Boston was evident from December of 2007. Although Metropolitan Boston lost jobs in November and December of 2008, the area still had 99,200 more jobs in December 2008 than in the same month of 2006.

Boston NECTA ⁽¹⁾
Total Non-Agricultural Employment
Monthly, 2006-2008
(Not seasonally adjusted, employment in 000's)

<u>Month</u>	<u>2006</u>		<u>2007</u>		<u>2008</u>	
	<u>Employment</u>	<u>Change from Same month of Previous Year</u>	<u>Employment</u>	<u>Change from same month of Previous Year</u>	<u>Employment</u>	<u>Change from same month of Previous Year</u>
January	2,398.5	+1.2%	2,435.2	+1.5%	2,455.9	+0.9%
February	2,403.8	+1.0	2,436.4	+1.4	2,460.1	+1.0
March	2,417.9	+1.4	2,446.3	+1.2	2,471.0	+1.0
April	2,442.0	+0.9	2,474.8	+1.3	2,497.7	+0.9
May	2,451.9	+0.9	2,493.4	+1.7	2,513.5	+0.8
June	2,471.9	+1.2	2,510.2	+1.5	2,529.2	+0.8
July	2,448.9	+1.1	2,482.3	+1.4	2,499.6	+0.7
August	2,443.0	+1.1	2,475.7	+1.3	2,491.8	+0.7
September	2,468.5	+1.2	2,494.2	+1.0	2,513.7	+0.8
October	2,480.3	+1.3	2,504.7	+1.0	2,519.7	+0.6
November	2,490.6	+1.2	2,514.3	+1.0	2,507.1	-0.3
December	2,498.2	+1.2	2,517.4	+0.8	2,497.7	-0.8
ANNUAL	2,451.3	+1.1	2,482.1	+1.3	N/A	N/A

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Source: Bureau of Labor Statistics (790 Series of Non-Agricultural Employment, February 2009).

The industry composition of employment comparing December 2007 to December 2008 figures shows that most job losses over the previous year occurred in retail trade, construction, manufacturing, financial activities, and leisure and hospitality services. Gains were evident in education & health services, professional & business services, and Government.

Boston NECTA ⁽¹⁾
Non-Agricultural Wage and Salary Employment by Industry
December 2007 and December 2008
(Seasonally unadjusted, employment in 000's)

<u>Industry</u>	<u>December 2007</u>	<u>December 2008</u>	<u>Change</u>	<u>Percent</u>
Non-Agricultural Total	2,517.4	2,497.7	-19.7	-0.8
Natural Resources and Mining	1.0	1.0	0.0	0.0
Construction	99.0	90.5	-8.5	-8.6
Manufacturing	221.1	215.5	-5.6	-2.5
Durable Goods	156.5	151.6	-4.9	-3.1
Non-Durable Goods	64.6	63.9	-0.7	-1.1
Trade, Transportation & Utilities	434.7	425.5	-9.2	-2.1
Wholesale Trade	105.8	105.7	-0.1	-0.1
Retail Trade	264.8	255.3	-9.5	-3.6
Transport, Warehousing & Utilities ..	64.1	64.5	+0.4	+0.6
Information Services	75.8	74.8	-1.0	-1.3
Financial Activities	189.7	184.8	-4.9	-2.6
Professional & Business Services	412.4	415.0	+2.6	+0.6
Education & Health Services	474.8	483.7	+8.9	+1.9
Leisure & Hospitality Services	215.2	210.8	-4.4	-2.0
Other Services	87.9	87.0	-0.9	-1.0
Government	305.8	309.1	+3.3	+1.1

(1) The Boston-Cambridge-Quincy, MA-NH Metropolitan New England City and Town Area (NECTA), which includes portions of seven counties in Massachusetts (Bristol, Essex, Middlesex, Norfolk, Plymouth, Suffolk and Worcester) and portions of two counties in New Hampshire (Hillsborough and Rockingham); as defined by the Office of Management and Budget (OMB).

Note: Some of the sub-categories do not add to totals because in some cases these are not the full list of sub-categories.

Source: Bureau of Labor Statistics (790 Series of Non-Agricultural Employment, February 2009).

The following table indicates that, as of 2007, 67% of City residents were White-Collar workers and 33% were Blue-Collar and Service workers, as compared to 1970 when 55% were White-Collar workers

and 45% were Blue-Collar and Service workers. The trend among City residents away from Blue-Collar and Service occupations and toward White-Collar occupations was evident between 1970 and 1990 (this trend actually began prior to 1970; in 1960 only 44% of city residents worked in white collar jobs). During the decade of the 1990s this trend showed some change. White-Collar occupations continued to grow but at a slower pace, with Managerial, Professional, & Related jobs gaining but Sales & Office jobs declining. At the same time, Blue-Collar & Service occupations continued to decline, with the exception of Production, Transportation & Related workers who showed a modest increase between 1990 & 2000. Between 2000 and 2007, the proportion of white collar workers in the city actually declined slightly.

Occupational Change in the City's Resident Labor Force

	1970		1980		1990		2000		2007	
	Number	%	Number	%	Number	%	Number	%	Number	%
White-Collar	146,657	55	154,456	60	191,251	67	197,049	69	204,248	67
Manag'l., Profess'l & Related.....	59,929	23	77,217	30	107,206	38	123,850	43	128,862	42
Sales & Office.....	86,728	33	77,239	30	84,045	29	73,199	26	75,386	25
Blue-Collar & Service.....	119,848	45	101,561	40	97,453	33	88,810	31	102,142	33
Constr'n, Extract'n, Maint.	27,157	10	19,772	8	18,453	6	14,118	5	14,998	5
Product'n., Transp'n., & Related ..	36,695	14	24,825	10	19,971	7	23,630	8	21,630	7
Service and Farm & Fishing	55,996	21	56,964	22	59,029	20	51,062	18	65,514	21
Total.....	266,505	100	256,017	100	288,704	100	285,859	100	306,390	100

Source: 1970-2000 from the decennial census reports, Bureau of the Census. 2007 from Bureau of the Census, "American Community Survey, 2007".

Unemployment

In 2007, Boston's unemployment rate was 4.4%, two-tenths better than the 4.6% national rate. Metropolitan Boston, Massachusetts and New England had rates at 4.1%, 4.5%, and 4.4%, respectively. All of these rates except for the U.S. as a whole were still above the rates of the previous year, 2006. Full-year 2008 unemployment rates were not yet available as of February 2009.

Annual Unemployment Rates, 2001-2007

	2001	2002	2003	2004	2005	2006	2007
City of Boston	4.1%	5.9%	6.4%	5.6%	5.2%	5.0%	4.4%
Metropolitan Boston ⁽¹⁾	3.6	5.3	5.7	5.0	4.5	4.5	4.1
Massachusetts	3.7	5.3	5.8	5.2	4.9	4.8	4.5
New England	3.6	4.8	5.4	4.9	4.7	4.5	4.4
United States	4.7	5.8	6.0	5.5	5.1	4.6	4.6

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts and Massachusetts Department of Workforce Development for the City and Metropolitan Boston. February 2009.

As the following table illustrates, monthly data for most areas in New England for 2007 showed unemployment rates that were improved over 2006. For the first four months of 2008, Boston's unemployment rate compared favorably with those for 2007. Rising unemployment rates became evident in the U. S. economy beginning in September of 2007 continuing through December of 2008 while rising unemployment rates in New England, Massachusetts, and Boston became evident starting in May 2008 and also continuing through December. In December 2008 Boston's unemployment rate was, however, significantly lower than that of the US; 6.0% compared to 7.1%, respectively.

**Monthly Unemployment Rates for City of Boston, Metropolitan Boston ⁽¹⁾, Massachusetts,
New England and the United States for 2006, 2007 and 2008⁽²⁾**

	<u>City of Boston</u>			<u>Metropolitan Boston ⁽¹⁾</u>			<u>Massachusetts</u>			<u>New England</u>			<u>United States</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Jan.	5.1%	5.1%	4.8%	4.8%	4.8%	4.6%	5.4%	5.5%	5.2%	5.1%	5.2%	5.3%	5.1%	5.0%	5.4%
Feb.	5.1	4.7	4.4	4.8	4.6	4.4	5.3	5.1	5.0	5.1	5.0	5.2	5.1	4.9	5.2
Mar.	4.9	4.3	4.2	4.6	4.3	4.3	5.2	4.8	4.8	4.8	4.6	5.2	4.8	4.5	5.2
Apr.	4.9	4.0	3.6	4.4	3.9	3.6	4.7	4.3	3.9	4.4	4.3	4.4	4.5	4.3	4.8
May.....	5.0	4.5	4.8	4.4	4.1	4.4	4.7	4.3	4.7	4.4	4.3	5.0	4.4	4.3	5.2
Jun.	5.5	4.9	5.6	4.7	4.4	5.0	4.9	4.6	5.3	4.6	4.5	5.4	4.8	4.7	5.7
Jul.	5.6	4.9	5.4	4.7	4.3	4.8	5.0	4.7	5.2	4.7	4.6	5.4	5.0	4.9	6.0
Aug.	5.8	4.4	5.2	4.4	3.9	4.7	4.7	4.2	5.1	4.4	4.2	5.5	4.6	4.6	6.1
Sep.	5.2	4.6	5.5	4.5	4.1	5.0	4.8	4.4	5.3	4.4	4.3	5.5	4.4	4.5	6.0
Oct.	4.5	4.0	5.0	4.0	3.6	4.6	4.2	3.9	5.0	4.0	4.0	5.4	4.1	4.4	6.1
Nov.	4.6	3.9	5.4	4.1	3.6	5.0	4.4	3.8	5.5	4.2	4.1	5.9	4.3	4.5	6.5
Dec.	4.3	3.9	6.0	4.0	3.7	5.8	4.4	4.1	6.5	4.2	4.3	6.6	4.3	4.8	7.1

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) Unemployment rates are not seasonally adjusted. Most recent data are preliminary and subject to revision.

Sources: Bureau of Labor Statistics for United States, New England and Massachusetts; and Massachusetts Department Workforce Development for the City and Metropolitan Boston. February 2009.

Largest Private Employers in Boston

The table below lists the fifty largest private employers in Boston, listed alphabetically, which as an aggregate represented approximately 21% of private sector employment in that year.

**Largest Private Employers in Boston, April, 2006
(listed alphabetically)**

ABM Janitorial Services	Investors Bank & Trust Co.
American Cleaning Company, Inc.	KPMG, LLP
Bank of America	Liberty Mutual
Beth Israel Deaconess Medical Center	Manulife Financial/John Hancock
Blue Cross Blue Shield of Massachusetts	Massachusetts Eye and Ear Infirmary
Boston College	Massachusetts Financial Services Co.
Boston Globe Newspaper	Massachusetts General Hospital
Boston Herald	New England Baptist Hospital
Boston Medical Center	New England Financial
Boston University	New England Medical Center
Brigham and Women's Hospital	Northeastern University
Carney Hospital	PricewaterhouseCoopers, LLP
Children's Hospital	Pioneer Investments
CVS Pharmacies	Shaws Supermarkets
Christian Science Monitor	Spaulding Rehabilitation Hospital
Dana-Farber Cancer Institute	St. Elizabeth's Medical Center
Deloitte & Touche, LLP	State Street Corporation
Ernst & Young	Stop and Shop Supermarkets
Faulkner Hospital	Suffolk University
Federal Reserve Bank of Boston	Teradyne, Inc
Fidelity Investments (FMR Corp.)	Thomson Corporation
Gillette Company	Verizon Communications
Harvard University (graduate schools)	Wellington Management
Hebrew Rehabilitation Center for the Aged	WGBH
Houghton Mifflin Co.	YMCA

Sources: Dun and Bradstreet; InfoUSA; and BRA Research Division, 2007.

In addition, the public sector has large numbers of employees in the City. According to the BRA, using a series consistent with the Bureau of Economic Analysis, there were an estimated 77,623 federal

state and local government workers in the City in 2008. Certain state government offices, federal regional offices, U.S. Postal Service facilities, state-chartered authorities and commissions (such as the Massachusetts Port Authority and the Massachusetts Bay Transportation Authority), and the City's local government are all located within the City.

Labor Force and Education

According to the Bureau of the Census, the City's resident labor force has been steadily increasing from 1980 through 2007. Since 1980, the increase in the number and age of the population have combined with the rising labor force participation of women, minorities, youth and the elderly to produce a larger labor force overall. Bureau of the Census data show that by 1990, the City's population had increased by 2% over 1980 levels, while the City's labor force increased by 12.8%. During the 1990's Boston's population continued to rise, posting a 2.6% increase while the age 25+ labor force grew by 3.2%. And, from 2000 through 2007 Boston's population rose by 3.3% and the labor force grew by 5.7%.

General improvement in educational attainment of residents aged 25 and over continued throughout the 1980-2007 period. The percentage of this population that had completed four or more years of college almost doubled during this period from 20.3% to 40.3%. This change, in part, reflected the trend for an increasing percentage of Boston public school system graduates to seek higher education. This percentage increased from 25% in 1960 to 78% in 2002, based upon Boston School Department figures. Improving educational attainment levels and shifting occupational patterns suggest a concurrent transformation of the City's work force as the City's economy has moved to a service-dominated employment base.

The City supports entry-level and advanced job training programs, including the following: English-as-a-Second Language training, pre-vocational and vocational training, adult literacy training, and support counseling. In addition, linkage contributions paid into the Neighborhood Jobs Trust provide a supplemental source of funding for job training programs. For a full discussion of the City's housing and jobs linkage program see "The Linkage Program," below.

Years of School Completed for Boston Residents Age 25 and Over, 1980-2007

	1980		1990		2000		2007	
	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>	<u>Persons</u>	<u>Percent</u>
Fewer than nine years	54,932	16.6%	37,824	10.3%	34,321	9.1%	35,636	8.9%
9 to 12 years, no diploma	49,407	14.9	51,051	14.0	45,308	12.0	31,127	7.8
High school grad. (or GED) .	115,787	35.0	97,233	26.6	90,568	24.0	101,582	25.4
Some college or Associates..	43,451	13.2	69,889	19.1	73,125	19.4	69,990	17.5
Bachelors, Masters, or Prof. .	<u>67,073</u>	<u>20.3</u>	<u>109,711</u>	<u>30.0</u>	<u>134,252</u>	<u>35.5</u>	<u>160,924</u>	<u>40.3</u>
Total.....	330,650	100.0	365,708	100.0	377,574	100.0	399,259	100.0

Note: GED stands for General Equivalency Diploma, which is equivalent to regular high school diploma and is earned by someone for completing work for graduation after having left high school.

Source: 1980-2000 from the decennial census reports, Bureau of the Census. 2007 from Bureau of the Census, "American Community Survey, 2007".

Income, Wages, and Cost of Living

Per capita personal income for Suffolk County was \$49,239 in 2006, 34% above the national per capita personal income of \$36,744, according to the Bureau of Economic Analysis. City residents constitute approximately 87% of the County's population. An historical summary of per capita income shows that from 1980 to 1990 Suffolk County's per capita income grew at a rate greater than that for the nation, in contrast to the 1970-1980 period when it rose at a slower rate. Suffolk County's per capita income grew at a faster rate than the per capita income growth rates for the United States, New England, and Massachusetts and just barely below the rate of growth for Metropolitan Boston between 1990 and 2000. The City's median household income (in current year dollars), based on Census data, rose from \$7,835 in 1970, to \$12,530 in 1980, \$29,180 in 1990 and \$39,629 in 2000. The figures in this paragraph and the chart directly below reflect earned income of persons residing in the named areas plus rents, interest and other unearned income and transfer payments from governmental entities. As such, these figures take into account certain income sources not included in the survey of average annual wages in the following paragraph, which reflects earned income of persons who work (but do not necessarily reside) in the named areas.

Per Capita Personal Income Comparison, 1970, 1980, 1990 and 2000-2007
(In current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1970	\$ 4,095	\$ 4,453	\$ 4,486	\$ 4,515	\$ 4,652
1980	10,183	10,701	10,673	10,806	10,477
1990	19,447	22,712	23,043	24,702	24,641
2000	29,845	36,118	37,756	41,436	38,137
2003	31,504	37,950	39,449	42,794	40,232
2004	33,123	40,058	41,444	44,988	43,089
2005	34,650	41,711	43,355	47,491	46,451
2006	36,744	44,558	46,363	50,542	49,239
2007	38,564	47,256	49,142	NA	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: Bureau of Economic Analysis, February 2009.

Data from the Bureau of Economic Analysis indicate that the average annual wage and salary disbursement per job for 1970 through 2007 by place of work have been consistently higher over time in Suffolk County than in Metropolitan Boston and the Commonwealth. In 2006, Suffolk County's average wage per job (\$68,868) was 24% greater than that in the Boston metropolitan area (\$55,677) and 35% greater than the average state earnings level (\$51,283).

Average Wage and Salary Disbursements Comparison, 1970, 1980, 1990, 2000-2007
(In current year dollars not adjusted for inflation)

	<u>United States</u>	<u>New England</u>	<u>Massachusetts</u>	<u>Metropolitan Boston</u> ⁽¹⁾	<u>Suffolk County</u> ⁽²⁾
1970	\$ 6,923	\$ 6,899	\$ 7,039	\$ 7,264	\$ 7,790
1980	13,999	13,358	13,526	14,095	15,472
1990	23,326	26,834	26,291	27,693	31,274
2000	34,718	39,918	43,218	47,042	55,522
2003	37,169	42,335	45,184	48,829	58,478
2004	38,810	44,553	47,802	51,904	64,611
2005	40,189	45,904	49,008	53,160	65,610
2006	42,009	47,929	51,283	55,677	68,868
2007	43,888	50,361	54,056	NA	NA

(1) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

(2) City residents constitute approximately 87% of Suffolk County's population.

Source: Bureau of Economic Analysis, February 2009.

During the years 2000-2007, based on the Bureau of Labor Statistics Consumer Price Index, the cost of living index rose at an annual average rate of 3.1% in Metropolitan Boston, while the national index increased at a 2.7% annual rate. In 2008 the change in the cost of living slowed significantly, in comparison to the prior years. From November 2007 to November 2008, the cost of living in Metropolitan Boston increased only 0.7%, slightly lower than the 1.0% rate for the U.S. as a whole.

Consumer Price Index for All Urban Consumers
For 2000 through 2008
(CPI-U) ⁽¹⁾

	United States	Percent	Metropolitan Boston ⁽²⁾	Percent
	<u>Index</u>	<u>Change</u>	<u>Index</u>	<u>Change</u>
2000.....	172.2	3.4	183.6	4.3
2001.....	177.1	2.8	191.5	4.3
2002.....	179.9	1.6	196.5	2.6
2003.....	184.0	2.3	203.9	3.8
2004.....	188.9	2.7	209.5	2.7
2005.....	195.3	3.4	216.4	3.3
2006.....	201.6	3.2	223.1	3.1
2007.....	207.3	2.8	227.4	1.9
2007 (November).....	210.2	-	230.7	-
2008 (November).....	212.4	1.0	232.4	0.7

(1) Index based upon 1982-1984=100.0. Monthly data not seasonally adjusted. Change for monthly data is based on the index from the same month as the previous year.

(2) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: Bureau of Labor Statistics

Medical and Higher Educational Institutions

Boston's medical and educational institutions are an important component of its economy, providing employment opportunities for residents of the City and Metropolitan Boston. Expenditures by the institutions' patients, students and visitors are important to the City's trade and service sectors.

Twenty-one inpatient hospitals are located within the City, including Massachusetts General Hospital, Brigham and Women's Hospital, Beth Israel Deaconess Medical Center, Children's Hospital, Tufts Medical Center, and Boston Medical Center. These hospitals had a combined total of 6,399 beds in 2006 according to the most recent data from the American Hospital Association. In 2006, the hospitals admitted 200,150 in-patients, and had over 5.8 million outpatient visits, according to data from the American Hospital Association (with three hospitals not reporting data other than beds). The City is also the home of the medical and dental schools of Harvard, Tufts and Boston Universities, and of twenty-five public neighborhood health clinics, not including health maintenance organizations and membership clinics.

In 2008, there were 117,914 health services jobs in the City, see the table "City of Boston Employment, 2006-2008." Health services represent over one out of every six jobs within the City. Growth in the health services sector has been stable, despite varying economic conditions. Data from this employment series showed that the number of hospital employees in Boston between 2006 and 2008 grew from 75,840 to 81,426.

In 2007 and 2008, there were three hospital or medical research building projects completed: the \$80 million sciences building with 160,000 square feet of medical research space at Boston University Medical Center's BioSquare (Parcel D in the South End); the Lyme Properties' 575,000 square-foot Blackfan Research Center in the Longwood Medical and Academic Area; and Brigham and Women's Hospital's 350,000 square-foot Center for Advanced Medicine.

As of February 2009 there are five hospital and medical research developments under construction. Among them are the Massachusetts General Hospital's 526,000 square-foot Building for the Third Century; Boston University Medical Center's BioSafety Level 4 (BSL4) research facility (Phase 2, Parcel F in the South End) nearing completion pending regulatory approval; Boston Medical Center's 245,000 square-foot New Ambulatory Care Building; and Dana Farber Cancer Institute's 275,000 square-foot Center for Cancer

Care, in the Longwood Medical and Academic Area; and the 95,000 square foot addition to Tufts Dental School on Harrison Avenue in Chinatown. In addition the 440,000 square-foot Longwood North Research Center medical research building also in the Longwood Medical and Academic Area, recently acquired by Children's Hospital, has been approved but is not yet underway. In 2008, the BRA approved a new 10-year Institutional Master Plan for Children's Hospital Boston. The BRA also approved an amendment to the Joslin Diabetes Center Institutional Master Plan, allowing for the eventual construction of the 350,000 square-foot Longwood Center project in the Longwood Medical and Academic Area.

For the fourteenth straight year, Boston has been the highest-ranking city in the United States for National Institutes of Health (NIH) grant awards, receiving more than \$1.6 billion in research grants during fiscal 2007. Boston's hospitals continue to attract funding, comprising the top five independent hospitals in the nation in terms of receiving NIH awards, and seven out of the top fourteen. In addition to public monies for medical research the Boston institutions also have private funding sources through agreements with private sector firms.

Greater Boston has one of the nation's largest clusters of life sciences industries. According to a January 2007 report by Battelle entitled "Growing the Nation's Bioscience Sector: A Regional Perspective," Boston-Cambridge-Quincy ranks fifth among the 25 metropolitan regions with over 10,000 employment in the bio-sciences specialties with 42,323 jobs (20,051 in research, testing, and medical laboratories; 15,874 in medical devices and equipment; 5,984 in drugs and pharmaceuticals; and 417 in chemicals). On a per-capita basis, Boston-Cambridge-Quincy also ranked fifth among the 25 metropolitan areas with biosciences employing at least 10,000, with 9.58 biosciences employees per 1,000. While Cambridge is the center for those industries in Greater Boston, the City of Boston itself is seeing significant industry growth in these fields with real estate development such as the Bio-Square project, the BioSafety Level 4 Research Facility both in the South End, and the recent completion of the Center for Life Sciences (CLSB) in the heart of the Longwood Medical Area (LMA).

As of academic year 2006-2007, the New England Board of Higher Education reported that the City's 34 universities, colleges, and community colleges had a combined enrollment in fall of 2006 of 154,777. These numbers, the most currently available, include some of the professional and graduate schools of Harvard and Tufts Universities, whose principal campuses are in Cambridge and Medford, respectively. Based on total graduate, undergraduate, and professional school enrollment, Boston University was the largest university in Boston in the fall of 2006, with 33,700 students. Boston, with only 10% of the state's population, has 33% of the statewide college student enrollment.

From 2003 through 2008 there were three higher education academic projects completed at Boston's universities: Boston College added a faculty administration building with 156,000 square feet of office space; Harvard University expanded its Baker Library at the Harvard Business School; and Simmons College completed an expansion of its campus library. In addition Boston College High School constructed a new wing housing a Junior High School facility.

As of February 2009 there were five higher education academic and office projects underway: at Simmons College a new Management School will open in fall of 2009; at Emerson College as part of the Paramount dormitory currently being built is a structure of 80,000 square feet to house classrooms, office administration space and a theater; at Emmanuel College completion is nearing at a 46,800 square foot building wing to house an Academic Sciences Building replacing the demolition of a small structure called St. James Hall; at Suffolk University at 20 Somerset Street the demolition of the obsolete building will be replaced by a new 112,000 square foot building which will house Suffolk's New England School of Art and Design with classrooms and adjacent reconstruction of the existing Roemer Plaza public open space; and at the Massachusetts College of Pharmacy and Health Sciences construction continues on a 49,700 square-foot academic building with classrooms, faculty offices, a computer center, teaching laboratories, as well as assembly and multi-function space.

Also as of February 2009 there were four higher education academic building projects approved but not yet under construction: Harvard University's Science Complex entailing construction of a research facility of 530,000 square feet on Western Avenue in the Allston neighborhood, which is to contain academic space, underground parking, and a small amount of retail space; Suffolk University's restoration of the Modern Theater on Washington Street in downtown Boston into a 3,000 square foot (185 seat) studio theater with a 1,000 square foot art gallery and 5,200 square feet of pre-function and support space underneath the residence hall addition; and, at Simmons College the small 5,898 square foot addition to the existing on-campus dining hall.

Between 2000 and year-end 2007, 23 dormitories with 7,321 dormitory beds (6,571 undergraduate and 750 graduate) opened to house Boston's college students. In 2007 two dormitories were finished: the Trilogy project at 180 Brookline Street in the Fenway, with 170 graduate student beds for Harvard University; and 275 beds for Suffolk University at 10 West Street downtown. The recent additions mean that Boston's colleges and universities now accommodate over 32,000 students in on-campus housing facilities. There are currently five dormitories under construction: the 115-bed Wheelock College student residences at 154 The Riverway, to be completed in May 2009; the 364-bed renovation of the Colonial Building by Emerson College at 80 Boylston Street in the downtown district; the 262-bed Emerson College dormitory adjacent to the Paramount Theater on Washington Street downtown; the new 1,200 bed Residence Hall I of Northeastern University at Tremont and Ruggles Streets in the South End; and the new 960-bed Armory Dorm Phase 2 by Boston University at 899 Commonwealth Avenue in Brighton. While college enrollment remains stable, new student housing is pulling students out of neighborhood housing, easing housing prices and ameliorating tight vacancies. Several future dorms have been approved and several more are under review. Recently approved was a future new Emmanuel College dormitory of 77,500 square feet to house 200 students on the corner of Beacon Street and The Fenway on the existing campus.

Tourism and Culture

According to the Greater Boston Convention and Visitors Bureau ("CVB"), an estimated 18.3 million people visited the Boston metropolitan area in 2008, up by 4.0% from the 17.6 million visitors in 2005. These data represent visitors, measured as tourists, business travelers and convention and meeting delegates who traveled at least 100 miles to get to the City. The latest data on the economic impact of tourism from the CVB show that, for greater Boston, domestic and international visitors had an estimated \$7.2 billion spending impact for hotel accommodations, meals, entertainment, shopping, transportation and other services during 2008. The latest data for Suffolk County indicates that in the county alone the total domestic direct traveler impact in 2006 was \$6.0 billion, supporting 42,860 jobs and a payroll of \$1.3 billion, while generating \$154 million in state tax receipts and \$105 million of local tax receipts.

The City of Boston is home to three major professional sports teams: the Boston Red Sox baseball team, the Boston Bruins hockey team, and the World Champion Boston Celtics basketball team. The New England Patriots football team play in Gillette Stadium in nearby Foxborough, Massachusetts. The City also provides venues for concerts, ice shows, circuses, theater, and other entertainment performances and amateur sports events. The TD Banknorth Garden home to the Celtics and Bruins and opened in 1995 is a privately-financed, multi-purpose arena in Boston's North Station District constructed by the New Boston Garden Corporation, a subsidiary of Delaware North. The ownership of the Boston Red Sox baseball franchise have undertaken renovations of the existing Fenway Park, including the addition of new seating and modernizing facilities, and have also proposed additional changes to the existing structure and also in the surrounding neighborhood.

Boston is an attractive destination for conventions, meetings, and trade-and-gate shows. Currently Boston has three small and medium convention sites, the John B. Hynes Veterans Memorial Convention Center ("Hynes"), the World Trade Center and the Bayside Exposition Center, with a combined capacity of over one million people per year, and the 1.6 million square-foot Boston Convention and Exhibition Center ("BCEC") that can host large national conventions. In 2008 the Hynes and the BCEC hosted 239 events with 915,616 attendees. This resulted in 627,413 hotel room nights, \$261 million in direct spending, \$18.5 million in direct tax revenue, and generated an overall economic impact of \$523 million.

Since 2000 several new cultural facilities have opened. The New England Aquarium completed an expansion plan including opening the new Simons IMAX Theater. The Boston Center for the Arts and the Huntington Theatre combined to complete joint development of two new theaters next to the Boston Center for the Arts in the South End in the fall of 2004 – the first new live stage theaters in Boston in 75 years. Downtown, Clear Channel, Inc. completed its \$37 million renovation of The Boston Opera House on Washington Street in the summer of 2004. A newly constructed Institute of Contemporary Art museum opened on the South Boston waterfront in 2006. The 65,000 square-foot building features galleries, a "mediatheque" with computer stations for accessing digital media, a 325-seat theater, and workshop and classroom spaces.

Several cultural institutions are pursuing development plans that are either currently proposed, approved, or under construction. The Museum of Fine Arts has a 462,400 square-foot multi-phase

expansion currently under construction. Also, the Gardner museum, one of the oldest and most noteworthy museums in the Fenway section of Boston is planning an expansion of its facilities.

In May, 2005 the Mayor launched Create Boston, an economic development program at the BRA that is designed to help creative businesses and individuals achieve their full potential for success. The program focuses on film, music, design, media, visual arts/crafts and performance, and provides resources in financial and site location assistance, workforce development and business advocacy; and is geared specifically toward business development and job creation. Currently the program focuses on strengthening and growing digital media and specifically the Boston video game industry. The Mayor recently established the first Boston-area Game Industry Steering Committee that meets monthly to address the issues and challenges facing the industry and further the BRA's effort to raise Boston's profile as a global leader in the game industry. On March 13, 2009 the Mayor will launch the first Game Industry Website. Following the 2007 "PoweringUp" conference funded in-part by the Mass Cultural Council (MCC), area video game companies have increased from 58 to 76 and two major universities have launched master's degree programs in game design and interactive multimedia and game engineering. For a description of Boston's artists' housing program see the section below on "Housing Stock, Housing Values, and Development.

Hotel Market

Between July 1997 and December 2008 Boston built 6,671 rooms in 31 new hotels and 5 hotel expansions. Boston's favorable hotel market and the decision to build the Boston Convention and Exposition Center stimulated considerable new development over this period. Since 1992, Boston's annual occupancy rates have exceeded 72% in 14 out of the 16 years.

From the beginning of 2004 through 2007 the following hotels were completed: an 81-room Courtyard by Marriott at 88 Exeter Street in the Back Bay; the Hotel Onyx, a 112-room Kimpton hotel near North Station; the Hampton Inn at Crosstown, a 175-room new hotel that is part of a mixed-use development of office, hotel, and retail space in Roxbury; Jurys Boston, a 220-room Jurys Doyle establishment in the Back Bay created through the adaptive re-use of the former police headquarters building; the Bulfinch Clarion Hotel, an 80-room adaptive reuse development near North Station; a 164-room Courtyard by Marriott in the South Bay/Roxbury district; the 40 room Hotel 140 in the Back Bay; the 793 room Westin BCEC Headquarters Hotel, attached to the new Boston Convention and Exhibition Center in South Boston; the 424-room Intercontinental Hotel on the downtown waterfront; and the 308-room Liberty Hotel, which includes the adaptive reuse of the historic Charles Street Jail. Four hotels opened in 2008: The 471-room Marriott Renaissance on the South Boston waterfront; the 150-room Battery Wharf Fairmount on the downtown waterfront; the 149-room Mandarin Oriental, a mixed-use project including condominium residences and retail space in the Back Bay; and the 16-room Inn @ St. Botolph. As of December 2008 there were a total of 18,098 hotel rooms in establishments of 50 or more rooms in Boston as a net result of the developments detailed above, and the closing of two older hotels.

Two additional hotels with a total of 353 rooms are in construction in Boston as of February 2009: The 118-room Ames Hotel is an adaptive reuse of an historic office building near Government Center scheduled to open in mid-2009 and the "W" Hotel with 235 rooms in the Theater District scheduled to open also in 2009. Construction of the 257-room hotel included in the mixed use redevelopment of the Downtown Crossing site of the former Filene's Department Store—known as One Franklin Street—was placed on hold in December 2008 pending financing but completion is now anticipated by 2011. Seven more hotels have BRA Board approvals but are not yet under construction.

Between 1991 and 2000, average annual occupancy rates grew from 70.1% to 78.4% and average daily room rates rose steadily from \$118.17 to \$198.00 according to Pinnacle Advisory Group, an independent hospitality industry consultant. The year 2001 brought a more challenging environment for the hospitality industry as a slowing economy combined with the events of September 11th dampened hotel market performance in Boston. In 2001 the occupancy rate fell to 69.6% and the room rate to \$180.58. By 2003 hotel room demand was growing again, but room supply continued its steady growth too, resulting in a 71.1% occupancy rate and \$155.52 average daily rate in that year. Between 2003 and 2008 Boston room demand grew by 27.2% over these five years and 2008 occupancy reached 75.1% with average daily rates averaging \$210.39, according to the Pinnacle Advisory Group. Revenue per available room was \$157.98 in 2008, just below the high mark of \$159.95 reached in 2007.

The tables below show the occupancy rate, average daily room rate, and revenue per available room for Boston hotels for 1990, and 2000 through 2008.

Boston Hotel Room Supply, Occupancy, Room Rate and Revenues per Available Room

<u>Year</u>	<u>Room Supply</u>	<u>Occupancy Rate %</u>	<u>Average Daily Rate</u>	<u>Percent Change</u>	<u>Revenue Per Available Room</u>	<u>Percent Change</u>
1990	12,070	74.3	118.72	—	88.21	—
2000	14,002	78.4	198.00	4.9	155.33	9.7
2003	15,034	71.1	155.52	-5.4	110.52	-6.9
2004	15,702	74.5	169.04	8.7	125.99	14.0
2005	15,866	75.4	176.73	4.5	133.24	5.8
2006	17,020	76.4	196.61	11.2	150.23	12.8
2007	17,328	76.1	210.28	7.0	159.95	6.5
2008	18,098	75.1	210.39	0.1	157.98	-1.2

Source: Occupancy, ADR and RevPAR reported by Pinnacle Advisory Group. BRA Research Division count of room supply at the end of each calendar year. Room Supply counts only rooms in hotels of 50 or more rooms.

Transportation

The City is a major national and international air terminus, a seaport, and the center of New England's rail, truck and bus service. The City is served by three limited-access interstate highways which connect it to the national highway system: U.S. 90 (the "Massachusetts Turnpike"), which leads westward from downtown Boston 138 miles to the New York State border; U.S. 95, the East Coast's principal north-south highway, which connects Boston to Portland, Maine to the north and New York City and Washington, D.C. to the south; and U.S. 93, another north-south interstate highway, that extends from just south of the City north to New Hampshire. The City is also served by two national railroads, Amtrak and Conrail, a regional rail carrier, Boston and Maine (a subsidiary of Guilford Transportation Industries), and Bay Colony, a local carrier.

Transportation planning includes both major highway and mass transit programs. The Massachusetts Bay Transportation Authority ("MBTA") provides commuter rail, subway, local bus and express bus services to 175 cities and towns in eastern Massachusetts, offering public transit alternatives to a population of almost 4.7 million people in an area of 3,200 square miles. The MBTA, the fifth largest mass transit system in the nation as determined by ridership, currently serves about 1.24 million passengers per day.

The MBTA's Capital Investment Program totals approximately \$3.75 billion over fiscal years 2009-2013, averaging about \$750 million per year. The Capital Investment Program consists of five major programmatic areas: (i) reinvestment in the infrastructure (\$2.276 billion); (ii) accessibility improvements (\$172 million); (iii) enhancement of existing service (\$256 million); (iv) system expansion efforts (\$165 million) and (v) statewide transportation improvements (\$879 million). Capital Investment Program spending by transportation mode is as follows: subway, \$2.107 billion; commuter rail, \$914 million; bus, \$442 million; system wide, \$193 million; and Silver Line, \$94 million. The major infrastructure projects include: vehicles (\$1.020 billion); station modernization (\$352 million); maintenance facilities, including rail car houses and bus garages (\$306 million); rail signaling systems (\$149 million); power (\$121 million); track/right-of-way (\$113 million); bridges (\$66 million); fare equipment (\$42 million; and communications (\$9.6 million).

Within Boston the most significant subway enhancement project is the Silver Line. The MBTA's 2009-2013 Capital Investment Program only includes \$94 million for the Silver Line project in Boston which are funds for the planning and design of Phase III because construction is not yet funded. If completed, the full Silver Line would provide new service within Boston's urban areas to Roxbury, South Boston, and Downtown. The MBTA completed the first two phases of the Silver Line. Phase I, completed in July 2002, provides bus rapid transit services along Washington Street (through the Downtown, Chinatown, the South End, and Roxbury neighborhoods) with 14 new stations. Phase II, completed in 2006, provides bus rapid transit services along the South Boston Piers Transitway, which extends from South Station along the South Boston waterfront to the Federal Courthouse to World Trade Center and beyond to the tunnel to the airport. Phase III of the Silver Line would entail construction of a tunnel from Washington Street to South Station and Logan Airport that will connect the Phase I and Phase II segments. Eventual construction of Phase III depends on funding availability at both the local and national levels.

Since 1991, Amtrak has spent \$1.8 billion on a multi-year high-speed rail infrastructure project intended to provide better ride quality, permit faster train speeds, and increase capacity for passengers on the rail corridor between Boston and New York. Ridership between Boston and New York has grown significantly as a result of the new high-speed service, despite the general downturn in the economy and regional travel. In fiscal year 2007 Amtrak carried 975,826 passengers between New York and Boston—an increase of 41% over the pre-Acela year of 2001. Amtrak commenced Boston—Portland, Maine passenger rail service (the “Downeaster”) in 2001. The 200-passenger train runs four times a day in each direction between North Station and Portland. The trip makes intermediate stops in Woburn and Haverhill (Massachusetts), Exeter, Durham, and Dover (New Hampshire), and Wells, Saco, and Old Orchard Beach (Maine).

For a description of the Central Artery/Third Harbor Tunnel project see “Large Public Sector Projects,” below.

Seaport and Airport

The Massachusetts Port Authority (“Massport”) was created by the state legislature to develop and manage the City’s major air and sea transportation centers, and the Tobin Memorial Bridge over the Mystic River. Massport is financially independent, and the City is not responsible for any debt or other obligations incurred by Massport. Heavy use of Boston Logan International Airport (“Logan Airport”) and the Port of Boston has compelled significant expansion of both facilities. Massport’s net investment in its facilities through June 2008 exceeded \$3.98 billion, consisting of \$3.38 billion invested in airports and \$598 million invested in the Tobin Bridge, maritime development and other capital projects. In February 2008, Massport projected that it would spend about \$899 million during fiscal years 2008-2012 for ongoing capital improvements to Hanscom Field, Logan Airport, the Tobin Memorial Bridge and the port facilities, and for improvements and major maintenance at various other Massport properties.

The Port of Boston serves the six-state New England region as a natural deep-water berth, and provides access to world ports as well as weekly barge service the Port of New York/New Jersey. (The prior feeder service suspended operations in December 2007.) The City’s port activity includes handling containerized bulk and general cargo, providing ship repair supply services, offering customs and international trading services, providing storage facilities and other commercial maritime services. The Port of Boston is also a major cruise port. The total number of cruise passengers in fiscal 2008 (236,922) increased by 17.9% compared to fiscal 2007. The cruise port mainly operates in the months of May through October.

The Port of Boston ranked as the 11th largest container port on the U.S. Atlantic Coast by container volume. During fiscal 2008, the Port activity of 1,116,000 boxed containers increased 4.5% over that of fiscal 2007, while the 15,546 automobiles handled in fiscal 2008 increased by 51.6% from fiscal 2007 and the 206,494 tons (in bulk tonnage) for fiscal 2008 increased by 9.7% from fiscal 2007’s bulk tonnage.

In Calendar 2008, Logan Airport served a total of 26.1 million passengers, a 7.1% decrease from the 28.1 million passengers served in 2007. A report on calendar year 2007 prepared by Airports Council International (“ACI”) showed that Logan was the most active airport in New England, the 19th most active in the United States and the 41st most active in the world. A new runway at Logan airport was completed late in 2006. Logan Airport also plays an important role as a center for processing domestic and international air cargo. According to ACI, Logan Airport ranked 19th in the nation in total air cargo volume in 2007. In fiscal 2008 total combined cargo and mail volume was 544.6 million pounds, a 5.2% decrease from the 680.1 million pounds handled in fiscal 2007.

Construction Activity

The following table sets forth construction activity in the City from fiscal years 2000-2009, estimated as indicated in the notes to the table. It should be noted that the issuance of a building permit and payment of a fee do not necessarily result in construction activity. The estimated revenue from building permit fees during fiscal 2009 (based on seven months of data) indicated that total construction activity is projected to total \$3.93 billion; higher than all the previous years shown. Revenue from building permit fees increased in all but one of the fiscal years between 1999 and 2009. Between fiscal years 2008 and 2009, building permit revenue increased is estimated to increase by 11%. As mentioned above data for fiscal year 2009 is an estimate based on seven months of data.

Boston Building Permit Revenues and Estimated Construction Activity Ten Fiscal Years, 2000-2009

	Building Permit Revenues ⁽¹⁾	Estimated Potential Construction Activity ⁽²⁾	Estimated Potential Construction Activity Adjusted For Inflation ⁽³⁾
2000.....	17,922,648	2,108,546,846	2,668,988,491
2001.....	27,191,839	3,199,039,882	3,882,281,298
2002.....	19,055,144	2,241,781,647	2,651,348,879
2003.....	20,145,888	2,370,104,471	2,701,384,399
2004.....	22,724,810	2,673,507,019	2,965,742,392
2005.....	23,213,600	2,731,011,765	2,932,935,001
2006.....	26,253,029	3,088,591,647	3,217,340,649
2007.....	27,861,224	3,277,791,059	3,301,944,699
2008.....	31,007,327	3,647,920,824	3,554,619,704
2009 (4).....	33,420,833	3,931,862,706	3,931,862,706
Total.....	<u>\$312,604,927</u>	<u>\$36,777,050,208</u>	<u>\$31,522,508,967</u>
Annual Average 2000-2009.....	\$ 24,879,634	\$ 2,927,015,786	\$ 3,180,844,822

- (1) Building permit revenues in current dollars. Columns may not add due to rounding.
- (2) Potential construction activity estimated by dividing permit revenues by 0.85%, which is the midpoint between permit fees calculated at 0.7% of the first \$100,000 estimated value of development cost, and 1% for the remainder of development cost.
- (3) Estimated construction activity adjusted to estimated and projected 2008 constant dollars (CPI-U Boston).
- (4) Fiscal Year 2009 data estimated based upon preliminary actual building permit revenues for the seven months.

Source: City of Boston, Auditing Department and City of Boston Annual Reports. Compiled by Boston Redevelopment Authority's Research Division (February 2009).

Large Public Sector Projects

In addition to major construction projects of the MBTA and Massport, Boston has witnessed several other major public sector projects including the Boston Convention and Exposition Center ("BCEC") Project and the Central Artery/Tunnel ("CA/T"), the downtown highway tunnel through the City including the Ted Williams tunnel under Boston Harbor. The CA/T Project, which has improved traffic flow in Boston since its completion, is under the control of the Massachusetts Turnpike Authority.

The CA/T Project includes the Ted Williams Tunnel, connecting Logan Airport and the North Shore to Downtown Boston and the western suburbs, the Leverett Circle Connector Bridge, a four-lane bridge over the Charles River carrying traffic between Leverett Circle in downtown Boston and U.S. 93 in Charlestown, the extension of U.S. 90 under Fort Point Channel to South Boston connecting with the highway with the Ted Williams Tunnel and Logan Airport in East Boston, and the Central Artery and the Leonard P. Zakim Bunker Hill Bridge over the Charles River. The CA/T Project, with an estimated total cost of \$14.63 billion, was half funded by the federal government while the remainder was the responsibility of the Commonwealth.

The BCEC Project was constructed on a 60-acre site in South Boston through the joint efforts of the City, the Commonwealth, the BRA, and the MCCA. The 1.6 million square-foot facility, was completed in 2004 and includes approximately 516,000 square feet of contiguous exhibition space on one level, approximately 160,000 square feet of meeting space and a 40,000 square-foot ballroom, as well as banquet and lecture halls. The BRA was authorized by the Convention Center Act to acquire and prepare the site for the BCEC Project and now the MCCA is the owner and operator of the BCEC. In 2008 the BCEC hosted conventions with 550,000 attendees and since opening in late 2004 has hosted over 1.45 million

conventioners. In addition to the BCEC Project, a 793-room convention center hotel on the northeast corner of the BCEC Project site opened in June 2006.

The Massachusetts Water Resources Authority ("MWRA"), an independent state authority, has recently completed construction of the major components of its Integrated Water Supply Improvement Program including the MetroWest Water Supply Tunnel, Norumbega Covered Storage Reservoir and the John J. Carroll Water Treatment Plant. The Integrated Water Supply Improvement Program has cost approximately \$1.1 billion through June 30, 2008. In addition, MWRA continues to operate the Deer Island Treatment Plant. This project, which was undertaken pursuant to a federal district court order, was part of MWRA's capital improvement program costing approximately \$3.8 billion and brought wastewater discharges into compliance with federal and state requirements.

The MWRA has also spent approximately \$1.2 billion on improvements to its wastewater system improvements and approximately \$1.6 billion on waterworks system through June 30, 2008. The largest expenditures have been for the MetroWest Water Supply Tunnel, the John J. Carroll Water Treatment Plant, improved water storage facilities and reduction of combined sewer overflows.

The MWRA-approved FY09 Capital Improvement Program anticipates the spending of approximately \$1.7 billion on additional water and wastewater system improvements between Fiscal Year 2009 and Fiscal Year 2013, and \$912.8 million in 2014 and beyond. The largest expenditures will be for the combined sewer overflow (CSO) control plan, interceptor and pumping improvements and water distribution system improvements. The largest component of the combined sewer overflow control plan is the North Dorchester Bay CSO Storage Tunnel and related facilities. Relatively small portions of the other improvements are located within the City, but they should nonetheless provide major improvements in the system infrastructure that serves the City.

The Boston Housing Authority ("BHA") between 1997 and 2008 completed major revitalization initiatives at four public housing developments: Mission Main, in the Mission Hill neighborhood of Boston; Orchard Park, in Roxbury; West Broadway in South Boston; and Maverick Gardens in East Boston. The BHA was able to initiate the revitalization of three of these developments when it was awarded HOPE VI grants from the U.S. Department of Housing and Urban Development ("HUD"). The grants, totaling \$105 million, were used to implement a new approach to public housing financing, incorporating innovative partnerships with public and private entities that leveraged additional development funds. The initiatives not only revitalized the BHA sites, but the surrounding neighborhoods as well. West Broadway, a state funded public housing development, was redeveloped through the use of a public/private partnership that included state and city funding. In addition, the BHA is in the process of revitalizing the Franklin Hill public housing development through a fifth public private partnership.

Empowerment Zone Designation

In 1999, the U.S. Department of Housing and Urban Development (HUD) designated part of the City an Empowerment Zone ("EZ"). The EZ, wholly within Boston, encompasses 6.953 square miles, running north to south right through the center of the City, including parts of the neighborhoods of South Boston, Downtown, the Seaport District, Chinatown, the South End, Mission Hill, Roxbury, Jamaica Plain, and Dorchester. The Empowerment Zone also includes two development sites, the "Massachusetts Turnpike Air Rights" and Morton Plaza in Mattapan. The EZ contains 58,717 residents, roughly 10% of the City's population and contains a variety of businesses from internationally known financial firms and retail stores to industrial uses to neighborhood businesses.

Boston Connects, Inc. (BCI) was established in November 1999 to oversee and implement the Empowerment Zone Strategic Plan. A 501(c) 3 organization, BCI has a Board of 24 members, 12 appointed by the Mayor and 12 elected from the Zone.

The Empowerment Zone is entering into its final year of a 10 year designation. The Initiative has continued to create opportunities in human development to enable residents of the Empowerment Zone to reach economic self sufficiency through job readiness job training and job placement, educational programs such as GED attainment and English as a Second Language, employment of youth in summer and year round jobs. Over 6,000 residents have benefited from the services of the Empowerment Zone.

The Empowerment Zone provides for economic development projects. The EZ designation makes Boston eligible to share in proposed federal grants and tax-exempt bonding authority to finance revitalization and job creation programs for 10 years. The ten-year EZ designation brings with it \$130

million in tax-exempt bonding authority for qualified projects. Pilot Seafood in the Seaport District, The Best Western Roundhouse Hotel and Katsiroubas Brothers located in Newmarket, and Crosstown Center have used tax-exempt bonds. In June 2008 Paratak Pharmaceuticals, Inc. as approved for \$14M in Enterprise Facility Bonds. To date \$80M in bonding authority has been used creating 300 jobs in the Empowerment Zone while improving the infrastructures of communities in the Empowerment Zone.

The Empowerment Zone has micro-loan programs as a economic development tool. A major strategy for strengthening communities in the Empowerment Zone is to ensure that there is a strong, expanding base of small businesses that provide jobs to local residents. Today more than ever, main street businesses need capital to survive the current economic crisis.

Boston Connects, Inc. had made available \$350,000 in microloan funds to strengthen existing business as well as start new businesses in the Empowerment Zone. Loans are available in the amounts of \$500 to \$25,000 Administered by the Department of Neighborhood Development, assistance in business planning including business assessment, pre- and post-loan counseling is available. Individuals and businesses interested in applying for a microloan should contact the City of Boston's Department of Neighborhood Development.

Office Market and New Development

The City and its neighborhoods currently have approximately 70.9 million square feet of office space. During the fourth quarter of 2008, Boston's overall vacancy rate according to CB Richard Ellis was 7.3% (and 13.2% availability when including space to sublet). Another realty firm, Jones Lang LaSalle, placed the City's office vacancy rate at 7.8%, but reports the availability rate to be 13.6%. The vacancy rate, increased during the four quarters of 2008.

Net absorption of office space during the fourth quarter of 2008, according to CB Richard Ellis, decreased by 379,160 square feet. CB Richard Ellis claims that positive absorption of office space has now been evident for fifteen consecutive quarters. Jones Lang LaSalle stated that total net absorption of office space in downtown Boston for full-year 2008 was -711,688 square feet. Office rents have been gradually decreasing. The uncertain national economic climate and distressed capital markets have begun to slow growth in rental rates and to slow tenant demand somewhat although the small amount of new supply underway and the small amount of sublease space available bodes well for only a moderate vacancy rate increase ahead.

Boston Office Market—Fourth Quarter, 2008

Market	Rentable Area (SF)	Available (%)	Vacancy (%)	2nd Quarter Net Absorption(1)	Average "Asking" Lease Rate(2)
Central Business District.....	36,299,527	14.1	7.5	-367,588	\$56.05
Back Bay.....	13,500,932	12.5	7.7	+59,106	55.80
South Boston Seaport District.....	6,792,239	16.7	7.9	-11,670	54.54
Charlestown/East Boston.....	2,986,958	7.4	5.4	+5,966	28.46
North Station/Waterfront.....	2,778,481	8.0	6.0	-4,072	34.01
Midtown.....	2,533,902	10.5	3.8	-36,085	36.18
South Station.....	1,469,149	18.6	17.2	-24,953	36.93
Dorchester/South Boston.....	1,075,235	26.6	3.9	+3,490	34.34
Allston/Brighton/Longwood Medical .	1,609,253	5.1	5.1	-10,963	24.57
Fenway/Kenmore Square.....	1,881,639	2.0	2.0	+7,609	26.48
Total Boston Office Market.....	70,927,315	13.2	7.3	-379,160	52.82

(1) Square feet.

(2) Dollars per square foot per year.

Source: CB Richard Ellis, Fourth Quarter 2008.

There is no accepted standard accounting for office vacancy rates so private realty firm surveys vary based upon the amount of office space covered, geographical coverage, and inclusion of new or old office space.

Despite the worsening picture of office market data Boston still compares favorably to other downtown office markets around the nation. As of the fourth quarter of 2008, CB Richard Ellis ranked Boston's downtown office market as having the best vacancy rate among the twenty largest downtown office markets in the U.S., with a rate of 7.2%.

**Comparative Office Vacancy Rates
20 Largest Downtown Office Markets – Fourth Quarter, 2008**

<u>City</u>	<u>Vacancy Rate</u>	<u>City</u>	<u>Vacancy Rate</u>
Boston.....	7.2%	Denver	13.2%
Manhattan (Downtown).....	7.4	Phoenix	13.7
Manhattan (Midtown).....	7.5	Kansas City.....	13.9
Houston	9.0	Los Angeles	14.4
Washington DC	9.0	San Diego.....	14.6
Seattle	10.8	Baltimore	14.7
Philadelphia.....	11.3	Minneapolis-St.Paul.....	15.4
Sacramento	11.3	Atlanta	18.8
Chicago.....	12.3	Dallas – Ft. Worth.....	23.5
San Francisco	12.6	Detroit	26.4
National Average ⁽¹⁾ 11.7%			

(1) National Average is based on 52 U.S. cities (44 downtowns) from the CB Richard Ellis Office Vacancy Index.

Source: CB Richard Ellis Office Vacancy Index, Fourth Quarter 2008.

In 2004 and 2005, four major downtown office projects with 1.5 million square feet of new office space were completed: ManuLife Financial, a 14-story, 470,000 square-foot building in the South Boston Waterfront area; 33 Arch Street a \$240 million, 936,000 square-foot building (533,197 square feet of office space and a 880 car garage); 100 Cambridge Street (the former Saltonstall state office building), a 278,849 square-foot renovation of an existing building (half of which will be occupied by state offices, with the other half rented to private sector tenants); and the 226 Causeway Street renovation, with 171,610 square feet in the North Station district. From 2006 through mid-2008 only a few downtown office projects were added to supply: Lincoln Plaza, a renovation of an existing building in the South Station sub-market to mixed uses with 119,000 square feet of office space was done; Atlantic Wharf a 517,000 square foot completion in the downtown waterfront was completed; and 2 existing office buildings totaling 355,000 square feet formerly used by the Christian Science Center were added in the Back Bay (although not a new development).

As of February 2009, two office buildings were under construction and several office buildings had been approved by the BRA Board and/or have been proposed. The two projects now in construction are: the 500,000 square foot One Marina Drive – Fan Pier in the South Boston Seaport District and Two Financial Center, a 214,000 square-foot building near South Station. Three approved but not-yet-started projects where some site preparation and demolition have begun include: Russia Wharf at 540 Atlantic Avenue on the downtown waterfront with 660,000 square feet of new office space; the South Station tower, a new building of 1.375 million square feet by Hines of Houston, Texas; and the Filene's tower rebuild at One Franklin Street by the Vornado Realty Trust and Gale International with 572,600 square feet of new space. These projects await both financing and major tenant commitments.

Retail Market

For 2008, based on two quarters of data, it is estimated that there are about 68,593 employees in retail stores, and food service and eating and drinking establishments in the City, with 32,377 in retail, and 36,216 in food service and eating and drinking. In 2002, according to the Census of Retail Trade, about 2,228 retail establishments were located in the City with an estimated total sales of \$5.4 billion. The food service and eating and drinking establishment industry in Boston (restaurants and bars) consists of an additional 1,858 establishments with \$1.7 billion in sales. The sector is rounded out by some 14,000 employees in the personal service businesses, which includes repair and maintenance, hair and nail care, and laundry and dry cleaning service. The 2007 Census of Retail Trade data is scheduled for release in 2010.

Massachusetts, Metropolitan Boston, and Boston Retail Sales, 1992-2002⁽¹⁾
(In thousands, not adjusted for inflation)

	<u>Massachusetts</u>	<u>Metropolitan Boston⁽²⁾</u>	<u>City of Boston</u>
1992	\$47,663,248	\$33,798,207	\$4,180,888
1997	65,859,804	48,348,686	5,608,411
2002	83,220,180	59,918,502	7,163,717
<u>Annual rate</u>	6.88%	7.07%	6.64%

(1) Total retail sales includes the census definition of retail sales (NAICS) from the series of Retail Trade plus the "foodservices and drinking places" category from the series of Accommodation and Food Services.

(2) Includes five counties in Massachusetts (Essex, Middlesex, Norfolk, Plymouth and Suffolk) and two counties in New Hampshire (Rockingham and Strafford), which together comprise the Boston-Cambridge-Quincy MA-NH Metropolitan Statistical Area.

Source: 1992 data from the 1992 Economic Census for Retail Trade. 1997 data from the 1997 Economic Census for Retail Trade (for retail) and for the 1997 Census for Accommodations and Foodservices (for foodservices and drinking places). 2002 data from the 2002 Economic Census for Retail Trade (for retail) and for the 2002 Census for Accommodations and Foodservices (for foodservices and drinking places).

The redevelopment of One Franklin, the former Filene's site, expected to restart in 2009, with Filene's Basement scheduled to move back into new, larger space in early 2010. Suffolk University has started construction at The Modern Theater, next door to the new retail/dormitory building at 10 West Street. Boston Common Coffee Company is under construction in one of two ground floor retail spaces at 10 West. Downtown Crossing welcomed 3 new restaurants—Marliave, Max and Dylan's, and Bina Osteria—as well as a gourmet market, Bina Alimentari. Currently there are an additional 9 new retail businesses under construction in the Downtown Crossing District including a 6,000 square foot restaurant planned for the new Ames Hotel with 140 rooms scheduled to open in 2009.

In the Fenway neighborhood, Trilogy, a mixed use development, added Chipotle and Phillip's Style Hair Salon to the retail mix that includes Boston's first West Elm store, Citibank, Starbucks, Emack and Bolio's Ice Cream, and Burton's Grill. A ribbon cutting was celebrated at 1330 Boylston Street, a mixed use development also in the Fenway in September 2009. This site has apartments, ground floor retail and restaurant space and will be the future home of the Fenway Community Health Center. The Crosstown commercial complex in the South End is wrapping up Phase II which will bring the total square feet of retail space up to 48,000. Current retail tenants include Dunkin' Donuts, Halisi Day Spa, Quiznos, and Enterprise Rental Cars. In Roslindale, Staples opened their first LEED certified store in the New England area in the long vacant Ashmont Discount site on Washington Street. Also in Roslindale, Stop and Shop has filed their plans for 100,000 square feet of new construction at the former Bradley's site on Cummings Highway and LA Fitness is under construction in a former Stop and Shop site on the VFW Parkway in West Roxbury. AJ Wright continues to do a brisk business in their Field's Corner Mall store in Dorchester and is currently searching for four additional locations in Boston's neighborhoods.

There are now 19 neighborhood business districts operating within the City's Main Streets Program. This program is a public-private initiative of the City established in 1995 to revitalize neighborhood commercial districts through locally established organizations. The program, from its inception through the end of fiscal year 2008, has generated 676 net new and expanded businesses, created 4,382 net new jobs, assisted in 641 storefront improvement projects, and given design assistance to 781 businesses. Through fiscal year 2008, the Main Streets Program had dispensed more than \$1.9 million in total physical improvement grants which had leveraged more than \$10.5 million in private investment, a leverage ratio of 5.5 to 1.

Also of importance are the supermarket developments that have taken place throughout Boston's neighborhoods. Twenty-three new or expanded supermarkets have opened in Boston's neighborhoods since 1992. Eight of these have opened in the past seven years.

Industrial Market and Recent Developments

According to "The Co-Star Industrial Report, Year-End 2007," Boston and Suffolk County have 26.6 million square feet of industrial space. As of December 2007, there was 3.6 million square feet of industrial space vacant, a vacancy rate of 13.4%, with—276,656 square feet of absorption over the year. The average rent for quality industrial space was estimated to range from \$8.09 per square-foot (triple net) for warehouse space, and \$17.70 for flex space.

Within Boston Marine Industrial Park, Boston's largest site for manufacturing located on the seaport in South Boston, 2008 brought a series of developments. The Central Parking Garage was expanded from 1,400 to 1,700 cars. Phase two of the International Cargo Center was permitted although demolition of the site has not yet begun. Permits are now in place for a new 500,000 square foot development on Massport Marine terminal, a thirty acre site. Ground breaking is anticipated in 2009 for the first building of 150,000 square feet. Also, F.J. O'Hara is beginning a 7,000 square foot expansion of their seafood processing and distribution facility at New Boston Seafood. Elsewhere, Global Protection is expanding from 10,000 square feet to 35,000 square feet of occupancy at 12 Channel Street. In addition, at Drydock #3, Boston Ship Repair is expanding by 30,000 square feet and merging with Atlantic Marine in anticipation of a 30% increase in ship repair activity. At 7 Tide Street Reflex Lighting purchased the 36,000 square foot lease formerly the location of Boston Thermo King.

The BRA's Back Streets Program, established in 2001, continues to attract, retain, and grow Boston's viable industrial and commercial businesses and their diverse job base through the strategic use of land, workforce and financial resources. In 2008 Back Streets successfully assisted 40 companies, retained 455 jobs, and created over 100 new jobs. Back Streets helped companies like Dancing Deer, Ambit Press, Boston Green Building, Olive Nation and Intralinks expand in Boston. These companies alone account for over 100,000 square feet of new space in the City as well as account for over 100 new jobs. By working with Back Streets, these programs had access to financing options, real estate expansion sites, workforce development and permitting assistance. Back Streets guided Dancing Deer Backing Company to 65 Sprague Street in Hyde Park for their expansion needs where they are occupying 47,500 square feet of space. Back Streets recruited Ambit Press to Boston where they purchased a building at 131 N. Beacon Street in Allston and are now occupying 25,000 square feet of space. Also, Back Streets referred OliveNation.com to Charlestown Commerce center where they are occupying 2,500 square feet of space. In addition, Intralinks, an industrial company expanded to 20,000 square feet in the Schraffts Center in Charlestown through assistance by the Back Streets program.

In 2008 Back Streets placed a strategic focus on the Newmarket Industrial Area. Strategically located at the crossroads of Boston's highways on the periphery of Downtown Boston, Newmarket is a vital center of Boston's wholesale trade and related industrial business vital to many downtown companies. Newmarket area businesses currently employ over 11,000 people and generate over \$3 billion in sales every year. Moving people and commerce is critical to the success of area businesses, and Back Streets has been instrumental in researching, proposing, and aiding the execution of several enhancements to the area, including an application for infrastructure improvements utilizing potential Public Works Economic Development grant funding. Future plans for the district involve working with departments across the city to enhance parking, infrastructure and transportation.

Housing Stock, Housing Values, and Development

The U.S. Bureau of the Census reported on some characteristics of the City's housing stock in April 2000. The total of 250,863 units grew by 1,072 from 1990, the date of the previous decennial census. The composition of occupied housing has been changing. The number of occupied rental apartments increased between 1990 and 2000, going from 157,920 to 162,302, a gain of 4,382 or 2.8%. The number of owner-occupied units also increased between 1990 and 2000, going from 70,544 to 77,226, a gain of 6,682 or 9.5%. Condominium units increased from about 4,500 in 1980 to over 38,000 in 2000. Public and publicly assisted housing totaled 49,868 units constituting over 19% of the City's housing stock. The percentage of owner to renter occupied units between 1990 and 2000 went from 30.9%/69.1% to 32.2%/67.8%. With the small addition of new units and the large gain in occupied units the number of vacant units dropped from 22,399 in 1990 to 12,407 in 2000 while the vacancy rate for owner and renter housing fell from 2.6% and 7.8%, respectively, in 1990 to 1.0% and 3.0%, respectively, in 2000.

A report on 2008 real estate trends done by the City's Department of Neighborhood Development

showed that the median rent for an apartment in Boston in 2008 as advertised in the newspapers was \$1,850 per month for all apartment types. Rents were up slightly city-wide from those of 2007, when the average was \$1,700. Median rents for an apartment ranged from a high of \$2,625 in the Back Bay/Beacon Hill district to a low of \$1,100 in Hyde Park.

**Median Advertised Asking Monthly Rent in Boston Neighborhoods
And the Volume of All Advertised Apartments**

2007 and 2008

<u>Neighborhood</u>	<u>Median Rent</u>			<u>Volume of Apartments</u>		
	<u>2007</u>	<u>2008</u>	<u>Percent</u>	<u>2007</u>	<u>2008</u>	<u>Percent</u>
Allston/Brighton.....	\$1,400	\$1,500	7	92	76	-17
Back Bay/Beacon Hill	2,100	2,625	25	327	278	-15
Central	2,300	2,400	4	160	171	7
Charlestown.....	1,700	2,300	35	46	40	-13
Dorchester	1,300	1,225	-6	96	68	-29
East Boston.....	1,000	1,175	18	15	16	7
Fenway/Kenmore	1,725	1,650	-4	14	20	43
Hyde Park.....	1,400	1,100	-21	17	38	94
Jamaica Plain.....	1,298	1,600	23	14	23	64
Mattapan.....	1,225	1,338	9	18	10	-44
Roslindale.....	1,300	1,400	8	53	35	-34
Roxbury	1,200	1,463	22	15	12	-20
South Boston	1,200	1,525	27	29	13	-55
South End	1,850	2,050	11	46	44	-4
West Roxbury	1,150	1,450	26	37	25	-32
Citywide	1,700	1,850	9	979	864	-12

Source: City of Boston, Department of Neighborhood Development, "Real Estate Trends, Annual Report 2008," uses the Boston Sunday Globe, from apartment listings for the first Sunday of the month. Apartments that include utilities or parking in the monthly rent are not represented in this survey (February,, 2009).

Through mid-2005 home prices in Greater Boston rose at a very fast pace but a fall in prices has occurred since year-end 2005. The National Association of Realtors reported that the median sales price of existing homes in Metropolitan Boston (the MSA but excluding the New Hampshire segment) was \$395,600 for 2007, a 4.3% decrease over the high annual median sales price of \$413,200 set in 2005. The 2008 Third Quarter median of \$373,400 was down by 13.3% from the 2005 Fourth Quarter median high of \$430,900.

Greater Boston Annual Median Sales Prices for Existing Homes, 2004-2008 ⁽¹⁾⁽²⁾
(Current Year Dollars)

<u>Year</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>	<u>Annual Median</u>	<u>Annual % Change</u>
2004.....	\$358,700	\$392,700	\$407,200	\$390,500	\$389,700	8.7
2005.....	396,200	418,500	430,900	397,500	413,200	6.0
2006.....	390,400	421,100	412,300	388,000	402,200	-2.7
2007.....	387,400	413,300	414,700	380,700	395,600	-1.6
2008.....	357,100	366,100	373,400	NA	NA	NA

(1) The data series previously used in this table ended in the year 2000. The series beginning in 2002 uses different source data so medians from the two series are not comparable. A completely revised unified series that was first made available in 2005 replaces this table from previous years' versions of Exhibit III.

(2) Greater Boston as used here by the National Association of Realtors (NAR) is defined as the Boston Metropolitan Statistical Area (MSA) excluding the New Hampshire portion.

Source: National Association of Realtors (February 2009).

Within the City the median sales price for a single-family home in Boston decreased from \$340,000 in the first quarter of 2004 to \$325,000 in the first quarter of 2008, an 4.4% fall over a 4 year period, and has shown a decline of 20.3% from the fourth quarter 2004 price of \$370,000 to \$295,000 in the fourth quarter of 2008. Condominium prices showed an increased price from \$339,500 in the first quarter of 2004 to \$352,000 in the first quarter of 2008, a 3.7% rise. However, condominium prices are lower by 6.0% from the fourth quarter 2004 price of \$345,000 to the \$325,000 price reached in the fourth quarter of 2008.

Median Residential Sales Prices for Boston
First Quarter 2004 through Fourth Quarter 2008
(Current Year Dollars)

<u>Year</u>	<u>Quarter</u>	<u>Single-Family</u>	<u>Two-Family</u>	<u>Three-Family</u>	<u>Condominium</u>
2004	First.....	\$340,000	\$420,000	\$500,000	\$339,500
	Second.....	377,500	458,500	516,220	350,000
	Third.....	375,000	460,000	518,000	354,950
	Fourth.....	370,000	469,500	515,000	345,000
2005	First.....	\$375,000	\$467,000	\$526,000	\$350,000
	Second.....	390,000	485,000	540,000	359,950
	Third.....	390,000	485,000	540,000	355,000
	Fourth.....	379,200	488,000	550,000	339,450
2006	First.....	\$365,000	\$480,000	\$530,000	\$351,500
	Second.....	388,250	490,000	530,000	359,000
	Third.....	370,000	475,000	525,000	340,000
	Fourth.....	354,000	465,000	510,000	339,000
2007	First.....	\$365,500	\$467,000	\$500,000	\$351,500
	Second.....	379,500	450,000	467,500	370,000
	Third.....	373,750	430,000	468,100	345,000
	Fourth.....	346,500	399,000	444,000	350,000
2008	First.....	\$325,000	\$378,500	\$341,000	\$352,000
	Second.....	354,500	318,250	340,000	385,000
	Third.....	348,950	305,750	290,500	377,750
	Fourth.....	295,000	270,000	250,000	325,000

Source: City of Boston, Department of Neighborhood Development using Banker & Tradesman data (June 2008).

Banker & Tradesman, a local trade journal, reported that during the full year 2008 there were 17% fewer total residential sales in the City than there were in the full year 2007 (7,177 versus 8,658). Sales of single-family homes fell 15% and sales of condominiums and multi-family non-condominiums fell by 20% and 9% respectively compared with 2007 sales.

Annual Residential and Condominium Sales in Boston ⁽¹⁾
1998-2008

<u>Year</u>	<u>Single-Family Sales</u>	<u>Percent Change</u>	<u>Multi-Family Residential Sales ⁽²⁾</u>	<u>Percent Change</u>	<u>Total Condominium Sales</u>	<u>Percent Change</u>	<u>Residential and Condo Sales ⁽³⁾</u>	<u>Percent Change</u>
1998	1,435	-3	2,612	3	4,255	11	8,302	6
1999	1,493	4	2,851	9	4,831	14	9,175	11
2000	1,229	-18	2,552	-10	4,543	-6	8,324	-9
2001	1,193	-3	2,136	-16	4,045	-11	7,374	-11
2002	1,272	7	2,078	-3	4,804	19	8,154	11
2003	1,308	3	2,146	3	5,030	5	8,484	4
2004	1,644	26	2,688	25	7,100	41	11,432	35
2005	1,448	-12	2,539	-6	6,949	-2	10,936	-4
2006	1,234	-15	2,029	-20	6,412	-8	9,675	-12
2007	1,125	-9	1,537	-24	5,996	-6	8,658	-11
2008	956	-15	1,395	-9	4,826	-20	7,177	-17

(1) Data for previous years have been revised since the publication of last year's report.

(2) Does not include single-family homes or condominiums.

(3) Equals single-family, multiple-family residential sales plus total condominium sales.

Source: Banker and Tradesman (February 2009).

Prices and sales volumes are also shown by neighborhood detail for single-family homes and for condominiums for calendar years 2007 and 2008. Areas of the City with the largest numbers of single-family home sales included West Roxbury, Hyde Park, Dorchester, and Roslindale. Single family prices ranged from \$210,000 in Mattapan to \$2.1 million in the Back Bay with the city-wide median at \$335,000 and the typical house going for \$365,000 in West Roxbury, the most suburban-style single family neighborhood within the City limits. The median sales price fell by 9% and the sales volume was down by 19% between 2007 and 2008.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Single Family Homes
In Boston's Neighborhoods, Calendar Years 2007 and 2008
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2007 Single-Family Price</u>	<u>2008 Single-Family Price</u>	<u>Percent Change</u>	<u>2007 Sales Volume</u>	<u>2008 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton	\$454,500	\$440,000	-3	50	42	-16
Back Bay/Beacon Hill ...	2,045,000	2,125,000	4	21	17	-19
Central	*	*	**	1	3	**
Charlestown	627,000	590,000	-6	64	55	-14
Dorchester	329,999	288,000	-13	167	157	-6
East Boston	267,500	215,000	-20	38	43	13
Fenway/Kenmore	*	*	**	3	3	**
Hyde Park	315,000	270,000	-14	167	131	-22
Jamaica Plain	580,000	575,000	-1	69	52	-25
Mattapan	289,950	210,000	-28	50	53	6
Roslindale	367,000	380,000	4	140	104	-26
Roxbury	293,500	252,000	-14	44	35	-20
South Boston	388,500	400,000	3	69	49	-29
South End	1,055,000	1,369,500	30	26	18	-31
West Roxbury	409,900	365,000	-11	291	216	-26
Citywide	370,000	335,000	-9	1,200	978	-19

* Less than ten sales of data are not deemed to be reliable.

** Not meaningful.

Note 1: The prices in the above table exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: Data in the above table does not include "paired-sales" so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and citywide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2009, Real Estate Trends, 2008.

Condominium sales volume and prices also showed diversity across the neighborhoods of Boston in 2007 and 2008. The three most expensive neighborhoods for condominiums (median price greater than \$521,000) were the Central (comprising Downtown, the North End, the West End, and the Waterfront), and the Back Bay/Beacon Hill and South End neighborhoods, which all together form the core residential pockets closest to downtown. Four neighborhoods had moderately priced condominiums (median price between \$340,000 and \$412,000): Charlestown, South Boston, Jamaica Plain and Fenway/Kenmore. Eight neighborhoods still had lower condominium median prices (with medians of \$275,000 or below): Allston/Brighton, Dorchester, East Boston, Hyde Park, Mattapan, Roslindale, Roxbury, and West Roxbury. The median citywide condominium price as of calendar Year 2008 was \$370,000, up 4% in price from those of calendar year 2007. Sales volume declined by 20%.

Short Term Trends in Housing Prices
Median Sales Prices and Sales Volume of Condominiums
In Boston's Neighborhoods, Calendar Years 2007 and 2008
(Not inflation adjusted)

<u>Neighborhood</u>	<u>2007 Condominium Price</u>	<u>2008 Condominium Price</u>	<u>Percent Change</u>	<u>2007 Sales Volume</u>	<u>2008 Sales Volume</u>	<u>Percent Change</u>
Allston/Brighton.....	\$269,000	\$273,000	1	645	413	-36
Back Bay/Beacon Hill	570,000	620,000	9	751	707	-6
Central	525,000	557,500	6	599	594	-1
Charlestown.....	435,000	412,000	-5	364	271	-26
Dorchester	275,000	235,000	-15	638	487	-24
East Boston	273,450	230,000	-16	186	119	-36
Fenway/Kenmore	295,000	340,000	15	274	212	-23
Hyde Park	254,000	230,000	-9	84	51	-39
Jamaica Plain.....	334,250	350,000	5	432	336	-22
Mattapan.....	259,900	125,000	-52	85	55	-35
Roslindale.....	292,500	275,000	-6	183	146	-20
Roxbury	275,500	215,000	-22	254	201	-21
South Boston	369,000	370,000	0	761	548	-28
South End	525,000	521,750	-1	730	660	-10
West Roxbury.....	245,000	257,500	5	122	94	-23
Citywide	355,000	370,000	4	6,108	4,894	-20

Note 1: The prices in the above table exempt all sales of properties of less than \$25,000 because the low price sales are not considered to be "arms-length" transactions and the high price sales can distort averages.

Note 2: Data in the above table does not include "paired-sales," so the size, quality and type of houses sold vary from year-to-year.

Note 3: Sales volume eliminates those sales mentioned in note 1 and also eliminate sales for properties that were not able to be accurately "geo-coded" for location so actual neighborhood and citywide totals are higher.

Source: City of Boston, Department of Neighborhood Development, February 2009, Real Estate Trends, 2008.

During the last two years, as a result of the problems nationally in housing markets due to the prevalence of sub-prime loans, the issue of foreclosures has become noteworthy and relevant to the discussion of housing markets. Boston has seen some rise in the amount of foreclosures, and the following table provides details at the City and neighborhood levels for 2007 and 2008. While deeds to foreclose (the first step in the foreclosure process) went up by 73% from 703 to 1,215, the petitions to foreclose (the final step in the foreclosure process) went down by 22% from 2,432 to 1,900 because of successful City of Boston programs to slow and control the foreclosure crisis. Neighborhoods with the most foreclosure problems in 2008 were: Dorchester, Roxbury, Mattapan, Hyde Park and East Boston. Despite these problems, metropolitan Boston in 2008 ranked 44th worst out of the 100 largest metropolitan areas in the percentage of foreclosure activity, as related to total housing units, at 1.77%. Massachusetts had a foreclosure rate of 1.64%; and the U.S. rate was 1.84%.

**Short Term Trends in Housing Foreclosures
In Boston and its Neighborhoods, Calendar Years 2007 and 2008
(Deeds and Petitions)**

	2007		2008		% CHANGE	
	Deeds	Petitions	Deeds	Petitions	Deeds	Petitions
Allston-Brighton	13	67	22	60	69	-10
Back Bay Beacon Hill	5	14	4	23	*	64
Central	7	29	8	23	*	-21
Charlestown	4	32	9	27	*	-16
Dorchester	232	709	418	513	80	-28
East Boston	47	168	89	185	89	10
Fenway/Kenmore	3	10	3	4	*	*
Hyde Park	82	249	111	193	35	-22
Jamaica Plain	11	65	18	56	64	-14
Mattapan	92	305	151	212	64	-30
Roslindale	31	133	73	110	135	-17
Roxbury	124	445	236	321	90	-28
South Boston	25	95	46	97	84	2
South End	10	36	7	22	*	-39
West Roxbury	17	75	20	54	18	-28
Citywide	703	2,432	1,215	1,900	73%	-22%

* No percentage change is calculated for neighborhoods with less than 10 deeds or petitions.

Source: City of Boston, Department of Neighborhood Development, February 2009.

The Boston Housing Authority (“BHA”) is a public agency that provides subsidized housing to low- and moderate-income individuals and families. The Authority administers two distinct housing programs. First, the Authority manages conventional public housing within the City of Boston. The Authority owns 60 developments, a few of which have both state and federal components and has also participated in the mixed-finance redevelopment of five of its developments. The BHA owns and manages some scattered site properties throughout the City of Boston as well. Of the 60 developments, 36 are designated as elderly/disabled developments and 24 are designated as family developments. Two of the 24 family developments have elderly/disabled housing on site and one of the elderly developments has designated units for families. The BHA currently owns and/or oversees approximately 14,000 units of housing in Boston and houses about 27,000 people under the public housing program. In addition, the Authority administers approximately 12,500 tenant-based rental assistance vouchers that allow families to rent in the private market and apply a subsidy to their rent. The BHA also subsidizes about 1,330 additional apartments through the Section 8 Project Based Voucher and Moderate Rehabilitation programs. Through this assistance, residents are able to pay approximately 30-40 percent of their income toward rent and the BHA pays the remainder. The BHA helps provide housing to approximately 25,000 people under this program. See “Large Public Sector Projects” for BHA development activity.

Boston uses tools such as zoning and inclusionary development to successfully produce artist space. Both artist live/work and artist work-only space is being made permanent by the work of the BRA’s Artist Space Initiative to support the work of creative entrepreneurs. More than 1,000 artists of many disciplines have submitted their portfolio documentation to be eligible for future artists’ space as it is developed. Artist units are in planning and development in many different Boston neighborhoods. In 2008, four new artist live/work spaces on Congress Street in Fort Point were sold to BRA Certified Artists. In addition, twenty-two additional new artist units are contemplated in a building in that same neighborhood, as additional residential and office redevelopment projects bring new investment to Fort Point. In Hyde Park, 62 new artist units are under construction and will be offered for sale starting later this year. Artist units are currently in the permitting process in South Boston, Roxbury, East Boston, Mission Hill and Hyde Park. Twenty-six permanent affordable artist live/work units were recently occupied by artists in the South End at Artblock, along with affordable work studios and nonprofit arts organization space. These developments have brought the total number of permanent artist units created through the BRA’s Artist Space Initiative to 165. Additionally, 118 more artists units are now in planning and development in the South Boston, Hyde Park, and Lower Roxbury neighborhoods.

Housing construction accelerated between 2000 and 2008 with the Leading The Way I and II housing strategy plans – Boston’s comprehensive strategy for intensive housing construction. The City has counted 17,047 housing units completed from 2000 through 2008 including more than 5,418 new “affordable rate” units. Over 7,000 households were protected from displacement through City efforts to prevent their subsidized apartments from becoming market-rate. Currently in construction are 2,967 total units while 855 more units are in developments which are designated “pre-construction” (permitted but physical construction yet to begin). When completed Boston’s Leading the Way production will total 19,592 housing units added. Virtually all of the Boston Housing Authority’s vacant units have been reclaimed to create new housing, particularly for the homeless.

The Boston Redevelopment Authority has approved 35 different private-sector housing developments around the City, both downtown and in the neighborhoods, with 3,048 new housing units that are presently under construction (2609) or in pre-construction (439). In addition, many more developments, both those approved by the City’s Department of Neighborhood Development and those with only private building permits are under construction.

Boston Redevelopment Authority
Housing Developments under Construction or Pre-Construction ⁽¹⁾
February 2009

<u>Project</u>	<u>Area</u>	<u>Total Units</u>	<u>Afford. Units</u>	<u>Market Units</u>	<u>Year Approved</u>
533 Cambridge	Allston/Brighton	44	6	38	2006
150 Chestnut Hill Ave (P)	Allston/Brighton	21	3	18	2008
1304-1312 Commonwealth Ave	Allston/Brighton	6	0	6	2005
BU Armory Phase II (Dorm)	Allston/Brighton	240	0	240	2007
9 Gardner	Allston/Brighton	14	2	12	2008
6 Arlington St	Back Bay/Beacon Hill	-26	0	-26	2007
Boylston St Mixed Use (The Mandarin)	Back Bay/Beacon Hill	85	10	75	2005
The Clarendon	Back Bay/Beacon Hill	285	37	248	2006
Battery Wharf	Central	120	0	120	2006
Avenir Development (89-115 Canal St)	Central	241	17	224	2007
40-44 Harrison Ave	Central	32	3	29	2006
121-127 Portland St	Central	54	4	50	2008
45 Province Street	Central	150	0	150	2006
W Hotel/Residences	Central	123	0	123	2007
944 Dorchester	Dorchester	59	8	51	2007
Mount Vernon Street Housing Project (Phase 2)	Dorchester	132	0	132	2007
Norfolk Street Townhouses	Dorchester	21	3	18	2006
Portside at Pier 1 (Phase 1)	East Boston	404	59	345	2006
910 Saratoga Street	East Boston	26	4	22	2008
1302-1330 Boylston	Fenway/Kenmore	199	10	189	2006
Wheelock College Dorm	Fenway Kenmore	29	0	29	2008
Mission Hill Scattered Sites (P)	Jamaica Plain	28	4	24	2008
11 Wyman (P)	Jamaica Plain	22	3	19	2006
Baker Chocolate Factory (Phase 2)	Mattapan	60	8	52	2007
Harvard Commons Homeownership 10 Snowden	Mattapan	1	0	1	2007
Harvard Commons Homeownership 22 Snowden	Mattapan	1	0	1	2008
Harvard Commons Homeownership 27 Snowden P	Mattapna	1	0	1	2008
Paradigm @ Blackmore Project (T Parcel) (P)	Roslindale	10	0	10	2007
The Residences at 50 West Broadway	South Boston	139	17	122	2008
Channel Wharf -- 401 West 1st Street	South Boston	45	5	40	2006
141 West 2 nd St (Dirigo Spice Building) (P)	South Boston	17	1	16	2008
Signal Building (154 West Second)	South Boston	75	9	66	2008
601 Albany Street (P)	South End	40	5	35	2007
301 Columbus Ave	South End	50	5	45	2005
Parcel 18 NU Dorm (P)	South End	300	0	300	2007
TOTAL		3,048	223	2,825	

(1) Pre-Construction is marked with a (P) designation after the project name. Of the 3,048 total there are 2,609 units under construction and 439 units in preconstruction.

Source: Boston Redevelopment Authority, January 2009.

The Linkage Program

The City implemented its development linkage program in 1983 in order to direct some of the benefits of downtown investment to the building of affordable housing in its neighborhoods through the Neighborhood Housing Trust (NHT). The linkage program also funds job training for City residents through the Neighborhood Jobs Trust (NJT). Under the linkage program, which was amended in 1986 and again in 2001, real estate developers seeking approval of large scale commercial or institutional developments are required to enter into agreements obligating them to pay exactions in the amount of \$9.44 per square-foot of construction over 100,000 square feet, of which \$1.57 per square-foot goes to the job training fund and \$7.87 per square-foot goes for affordable housing purposes. The fee was last adjusted as of March 9, 2006.

Linkage payments to the NHT are amortized over a period of either seven or twelve years, depending on the date of the initial agreement. Under NHT policy, current agreements provide for a seven-year payment period. The seven-member NHT board holds public hearings and has the authority to approve linkage grants to selected projects, except for a separate "housing creation" option, which requires the additional approval by the BRA. Since the inception of the linkage program through December 2008, the NHT has awarded \$112 million in grant funds to various affordable housing projects.

Based on data through 2008, NHT funding contributed to the complete or pending construction or renovation of 9,766 housing units in 160 projects in the City's neighborhoods. Affordable housing units for low and moderate-income residents comprise 82% (8,031 units) of this total. Of these 160 housing developments created, linkage funds, for the most part, account for fewer than 6% of the total development costs of the projects. NHT grant awards are allocated to fund low and moderate-income housing through the renovation of old buildings and schools, as well as to assist in the creation of new housing. Projects have included rental units; single room occupancy units, such as housing for pregnant, homeless women and alcohol recovery programs; condominiums; housing cooperatives; and home ownership.

Between fiscal years 1988 and 2008 over \$20 million of funds were committed to the job training component of the City's linkage program and over \$17 million of funds had been awarded to a broad range of community-based job training and adult education programs. Services funded under this program include: model program designs for entry-level job training, adult education, English for Speakers of Other Languages, and workplace-based education. The NJT is particularly interested in supporting innovative education and training activities which result in high-wage employment, new or non-traditional employment opportunities, and community-based projects that respond to specific neighborhoods' documented education and training needs. The NJT is committed to providing appropriate services to the residents of neighborhoods where, or adjacent to where, a given development project is located, while also ensuring that residents throughout the City have access to new jobs resulting from development.

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TABLE OF REDEMPTION VALUES

City of Boston QSCBs

Bond Notional	20,000,000.00
Tax Credit Rate	6.05%
Annual Tax Credit / 10,000 Bond Notional	605.00
Annual Tax Credit / 40,000 Bond Notional	2,420.00
Quarterly Tax Credit / 10,000 Bond Notional	151.25
Quarterly Tax Credit / 40,000 Bond Notional	605.00

Payment	Tax Credit Date	Tax Credit
0	11/4/2009	
1	12/15/2009	137,806
2	3/15/2010	302,500
3	6/15/2010	302,500
4	9/15/2010	302,500
5	12/15/2010	302,500
6	3/15/2011	302,500
7	6/15/2011	302,500
8	9/15/2011	302,500
9	12/15/2011	302,500
10	3/15/2012	302,500
11	6/15/2012	302,500
12	9/15/2012	302,500
13	12/15/2012	302,500
14	3/15/2013	302,500
15	6/15/2013	302,500
16	9/15/2013	302,500
17	12/15/2013	302,500
18	3/15/2014	302,500
19	6/15/2014	302,500
20	9/15/2014	302,500
21	12/15/2014	302,500
22	3/15/2015	302,500
23	6/15/2015	302,500
24	9/15/2015	302,500
25	12/15/2015	302,500
26	3/15/2016	302,500
27	6/15/2016	302,500
28	9/15/2016	302,500
29	12/15/2016	302,500
30	3/15/2017	302,500
31	6/15/2017	302,500
32	9/15/2017	302,500
33	12/15/2017	302,500
34	3/15/2018	302,500
35	6/15/2018	302,500
36	9/15/2018	302,500
37	12/15/2018	302,500
38	3/15/2019	302,500
39	6/15/2019	302,500
40	9/15/2019	302,500
41	12/15/2019	302,500
42	3/15/2020	302,500
43	6/15/2020	302,500
44	9/15/2020	302,500
45	12/15/2020	302,500
46	3/15/2021	302,500
47	6/15/2021	302,500
48	9/15/2021	302,500
49	12/15/2021	302,500
50	3/15/2022	302,500
51	6/15/2022	302,500
52	9/15/2022	302,500
53	12/15/2022	302,500
54	3/15/2023	302,500
55	6/15/2023	302,500
56	9/15/2023	302,500
57	12/15/2023	302,500
58	3/15/2024	302,500
59	6/15/2024	302,500
60	9/15/2024	302,500

City of Boston QSCB Redemption Values (Per \$100 of par redeemed)

Tax Credit 6.05%
Total Yield 6.05%

Component Value																						
	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit	Tax Credit
Valuation Date	12/15/2009	3/15/2010	6/15/2010	9/15/2010	12/15/2010	3/15/2011	6/15/2011	9/15/2011	12/15/2011	3/15/2012	6/15/2012	9/15/2012	12/15/2012	3/15/2013	6/15/2013	9/15/2013	12/15/2013	3/15/2014	6/15/2014	9/15/2014	12/15/2014	3/15/2015
11/4/2009																						
12/15/2009	0.6890	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035
3/15/2010		1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202
6/15/2010			1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372
9/15/2010				1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544
12/15/2010					1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718
3/15/2011						1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896
6/15/2011							1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075
9/15/2011								1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258
12/15/2011									1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443
3/15/2012										1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632
6/15/2012											1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823
9/15/2012												1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017
12/15/2012													1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214
3/15/2013														1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413
6/15/2013															1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616
9/15/2013																1.5125	1.4900	1.4678	1.4459	1.4244	1.4031	1.3822
12/15/2013																	1.5125	1.4900	1.4678	1.4459	1.4244	1.4031
3/15/2014																		1.5125	1.4900	1.4678	1.4459	1.4244
6/15/2014																			1.5125	1.4900	1.4678	1.4459
9/15/2014																				1.5125	1.4900	1.4678
12/15/2014																					1.5125	1.4900
3/15/2015																						1.5125
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City of Boston QSCB Redemption Values (Per \$100 of par redeemed)

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City of Boston QSCB Redemption Values (Per \$100 of par redeemed)

Valuation Date	Tax Credit																		Principal	Redemption to Principal	Reemption % to Tax Credits	Total Redemption	
	12/15/2020	3/15/2021	6/15/2021	Tax Credit	Tax Credit	Tax Credit	12/15/2021	3/15/2022	6/15/2022	Tax Credit	Tax Credit	Tax Credit	12/15/2022	3/15/2023	6/15/2023	Tax Credit	Tax Credit	12/15/2023					3/15/2024
11/4/2009																							
12/15/2009	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	0.6624	0.6525	0.6428	0.6332	0.6238	41.2428	40.961%	59.039%	100.6889			
3/15/2010	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	0.6624	0.6525	0.6428	0.6332	41.8667	41.243%	58.757%	101.5125			
6/15/2010	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	0.6624	0.6525	0.6428	42.4989	41.867%	58.133%	101.5125			
9/15/2010	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	0.6624	0.6525	43.1427	42.500%	57.500%	101.5125			
12/15/2010	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	0.6624	43.7952	43.143%	56.857%	101.5125			
3/15/2011	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	0.6724	44.4576	43.795%	56.205%	101.5125			
6/15/2011	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	0.6826	45.1300	44.458%	55.542%	101.5125			
9/15/2011	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	0.6929	45.8126	45.130%	54.870%	101.5125			
12/15/2011	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	0.7034	46.5055	45.813%	54.187%	101.5125			
3/15/2012	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	0.7140	47.2089	46.506%	53.494%	101.5125			
6/15/2012	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	0.7248	47.9229	47.209%	52.791%	101.5125			
9/15/2012	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	0.7358	48.6477	47.923%	52.077%	101.5125			
12/15/2012	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	0.7469	49.3835	48.648%	51.352%	101.5125			
3/15/2013	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	0.7582	50.1304	49.383%	50.617%	101.5125			
6/15/2013	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	0.7697	50.8886	50.130%	49.870%	101.5125			
9/15/2013	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	0.7813	51.6583	50.889%	49.111%	101.5125			
12/15/2013	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	0.7932	52.4396	51.658%	48.342%	101.5125			
3/15/2014	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	0.8051	53.2328	52.440%	47.560%	101.5125			
6/15/2014	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	0.8173	54.0379	53.233%	46.767%	101.5125			
9/15/2014	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	0.8297	54.8552	54.038%	45.962%	101.5125			
12/15/2014	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	0.8422	55.6849	54.855%	45.145%	101.5125			
3/15/2015	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	0.8550	56.5271	55.685%	44.315%	101.5125			
6/15/2015	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	0.8679	57.3821	56.527%	43.473%	101.5125			
9/15/2015	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	0.8810	58.2500	57.382%	42.618%	101.5125			
12/15/2015	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	0.8944	59.1310	58.250%	41.750%	101.5125			
3/15/2016	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	0.9079	60.0254	59.131%	40.869%	101.5125			
6/15/2016	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	0.9216	60.9333	60.025%	39.975%	101.5125			
9/15/2016	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	0.9356	61.8549	60.933%	39.067%	101.5125			
12/15/2016	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	0.9497	62.7905	61.855%	38.145%	101.5125			
3/15/2017	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	0.9641	63.7402	62.790%	37.210%	101.5125			
6/15/2017	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	0.9787	64.7043	63.740%	36.260%	101.5125			
9/15/2017	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	0.9935	65.6830	64.704%	35.296%	101.5125			
12/15/2017	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	1.0085	66.6765	65.683%	34.317%	101.5125			
3/15/2018	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	1.0237	67.6850	66.677%	33.323%	101.5125			
6/15/2018	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	1.0392	68.7087	67.685%	32.315%	101.5125			
9/15/2018	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	1.0549	69.7479	68.709%	31.291%	101.5125			
12/15/2018	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	1.0709	70.8028	69.748%	30.252%	101.5125			
3/15/2019	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	1.0871	71.8737	70.803%	29.197%	101.5125			
6/15/2019	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	1.1035	72.9608	71.874%	28.126%	101.5125			
9/15/2019	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	1.1202	74.0643	72.961%	27.039%	101.5125			
12/15/2019	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	1.1372	75.1845	74.064%	25.936%	101.5125			
3/15/2020	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	1.1544	76.3217	75.185%	24.815%	101.5125			
6/15/2020	1.4678	1.4459	1.4244	1.4031	1.3822	1.3616	1.3413	1.3214	1.3017	1.2823	1.2632	1.2443	1.2258	1.2075	1.1896	1.1718	77.4761	76.322%	23.678%	101.5125			
9/15/2020	1.4900	1.4678	1.4459																				

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PROPOSED FORM OF OPINION OF BOND COUNSEL

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 fax 617.227.4420 eapdlaw.com

November 4, 2009

Lisa C. Signori
Director of Administration and Finance
and Collector-Treasurer
City of Boston
Boston, Massachusetts

Re: City of Boston, Massachusetts
General Obligation Qualified School Construction Bonds, 2009 Series A

We have acted as Bond Counsel to the City of Boston, Massachusetts (the “City”), in connection with the issuance by the City of \$20,000,000 General Obligation Qualified School Construction Bonds, 2009 Series A (the “Bonds”), dated the date hereof. In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

The Bonds have been designated by the City as “qualified school construction bonds” within the meaning of Sections 54A and 54F of the Internal Revenue Code of 1986 (the “Code”) (the Bonds in such form are herein referred to as “Tax Credit Bonds”). Upon the conditions provided in the Bonds, the Tax Credit Bonds may be converted by the City into interest bearing bonds not associated with any credit against federal income tax liability (“Interest Bearing Bonds”).

Pursuant to the Paying Agent Agreement dated as of November 4, 2009 (the “Paying Agent Agreement”) between the City and Bank of New York Mellon Trust Company, N.A., as paying agent, transfer agent and registrar for the Bonds, (i) the ownership of a Principal Strip Certificate comprising a portion of the evidence of ownership of a Tax Credit Bond (the “Principal Strip Certificate”), which certificate evidences an entitlement to receive one or more principal payments with respect to such Tax Credit Bond, may be separated from the ownership of the Tax Credit Certificate associated with and comprising a portion of the evidence of ownership of such Tax Credit Bond (the “Tax Credit Certificate”), which certificate evidences an entitlement to receive one or more credits against federal income tax liability; (ii) the ownership of the Principal Strip Certificates and the Tax Credit Certificates may be recombined into Tax Credit Bonds; (iii) Tax Credit Bonds may be converted into Interest Bearing Bonds; (iv) the ownership of the Principal Strip Certificate of an Interest Bearing Bond may be separated from the ownership of a Cash Interest Certificate (the “Cash Interest Certificate”) evidencing the entitlement to receive cash interest payments on such Interest Bearing Bond; and (v) the ownership of Principal Strip Certificates and Cash Interest Certificates may be recombined into

Interest Bearing Bonds. Capitalized terms used herein and not otherwise defined shall have the meanings set forth in the Paying Agent Agreement.

As to questions of fact material to our opinion we have relied upon representations and covenants of the City contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on this examination, we are of the opinion, under existing law, as follows:

(1) The Bonds, whether in the form of Tax Credit Bonds or Principal Strip Certificates and Tax Credit Certificates separated therefrom or in the form of Interest Bearing Bonds or Principal Strip Certificates and Cash Interest Certificates separated therefrom, are valid and binding general obligations of the City.

(2) Except to the extent the Bonds are paid from other sources, the principal of the Tax Credit Bonds, or Principal Strip Certificates separated therefrom, and the principal of and interest on the Interest Bearing Bonds or Principal Strip Certificates and Cash Interest Certificates separated therefrom, are payable from taxes which may be levied without limitation as to rate or amount upon all taxable property in the City.

(3) A taxpayer who holds a Tax Credit Bond as of a “credit allowance date” (as defined in Section 54A of the Code), subject to the limitations of Section 54A of the Code, is allowed a credit against federal income tax for the taxable year to which such credit allowance relates. We express no opinion with respect to the amount of credit available with respect to, or the availability of credits to any holder of, a Tax Credit Bond or a Tax Credit Certificate, if and to the extent such Tax Credit Certificate has been stripped or otherwise separated from the Tax Credit Bond to which it relates. The credit described herein will be treated as interest that is included in gross income for federal tax purposes. The City has covenanted to take all lawful action necessary under the Code to ensure that the Tax Credit Bonds will retain their status as qualified school construction bonds for federal income tax purposes and to refrain from taking any action which would adversely affect their status as qualified school construction bonds. In addition, the interest on the Interest Bearing Bonds is includable in gross income of the owners of the Bonds for federal income tax purposes. We express no opinion regarding any other federal tax consequences arising with respect to the Bonds or the income therefrom, whether held as Tax Credit Bonds, Interest Bearing Bonds, Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates.

(4) Although any bonds of the City issued under authority of any bond act, their transfer and the income therefrom, including any profit made on the sale thereof, shall be at all times free from taxation within The Commonwealth of Massachusetts, we express no opinion regarding the treatment of the tax credit or the eligibility for tax credits of any Owner of a Tax Credit Bond, or, if stripped, any holder of a Tax Credit Certificate, under Massachusetts law.

However, interest on the Interest Bearing Bonds is exempt from Massachusetts personal income taxes, and the Bonds, or, if stripped or converted, the related Principal Strip Certificates, are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or the income therefrom or any tax consequences arising with respect to the Bonds or the income therefrom under the laws of any state other than Massachusetts, whether held as Tax Credit Bonds, Interest Bearing Bonds, Principal Strip Certificates, Tax Credit Certificates or Cash Interest Certificates.

We note that regulations have not been promulgated with respect to entitlement to the federal income tax credit provided by Section 54A of the Code or the separation of the ownership of the principal portion of a “qualified school construction bond” from the entitlement to the federal income tax credit provided thereby. Such regulations and other official guidance, if and when issued, may impose additional requirements that may be applicable, prospectively or retroactively, to a claim by an Owner for allowance of such federal income tax credit.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors’ rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Unless otherwise expressly stated herein, any U.S. federal tax law advice contained in this opinion is not intended or written to be used, and cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on such taxpayer by the Internal Revenue Service. Such advice was written to support the promotion or marketing of the Bonds. This notice is intended to comply with the applicable provisions of Internal Revenue Service Circular 230.

Edwards Angell Palmer & Dodge LLP

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**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the City of Boston, Massachusetts (the "City") in connection with the issuance of its \$20,000,000 General Obligation Qualified School Construction Bonds, 2009 Series A (the "Bonds"), dated November 4, 2009. The City covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the City for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the City pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Dissemination Agent" means Digital Assurance Certification, L.L.C., acting in its capacity as dissemination agent for the City pursuant to the Disclosure Dissemination Agent Agreement dated as of September 1, 2005, between the City and Digital Assurance Certification, L.L.C., or any successor thereto designated by the City as its agent for purposes of satisfying the filing and notice requirements assumed by the City under this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"MSRB" shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

SECTION 3. Provision of Annual Reports.

(a) The City shall, not later than 365 days after the end of each fiscal year, provide, or cause the Dissemination Agent to provide, to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the City may be submitted when available separately from the balance of the Annual Report.

(b) If the City is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the City shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The City's Annual Report shall contain or incorporate by reference the following:

- (a) quantitative information for the preceding fiscal year of the type presented in the City's Official Statement dated October 28, 2009 relating to the Bonds regarding (i) the revenues and expenditures of the City relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the City, and (vi) pension obligations of the City, and
- (b) the most recently available audited financial statements of the City, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the City or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The City shall clearly identify, or shall cause the Dissemination Agent to clearly identify, each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The City shall give notice, or shall cause the Dissemination Agent to give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.
7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

(b) Whenever the City obtains knowledge of the occurrence of a Listed Event, the City shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the City shall promptly file a notice, or cause the Dissemination Agent to file a notice, of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The City's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the City may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the City),

to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the City to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. The City will give notice, or will cause the Dissemination Agent to give notice, of the change in the accounting principles to the MSRB.

SECTION 9. Default. In the event of a failure of the City to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the City of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the City to comply with this Disclosure Certificate shall be an action for specific performance of the City's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: _____, 2009

CITY OF BOSTON, MASSACHUSETTS

By _____
Director of Administration and Finance and
Collector-Treasurer

Mayor

City Auditor

[EXHIBIT A: Filing Information for the MSRB]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

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